

MONTGOMERY COUNTY MARYLAND

COMPREHENSIVE ANNUAL FINANCIAL REPORT



Prepared by the
Department of Finance

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Fiscal Year 1998
July 1, 1997 - June 30, 1998

TABLE OF CONTENTS

Exhibit	Description	Page
PART I - INTRODUCTORY SECTION		
	Listing of Officials	viii
	Transmittal Letter	xii
	Certificate of Achievement	xxx
	Organization Chart	xxxii
	Acknowledgments	xxxii

PART II - FINANCIAL SECTION

Report of Independent Public Accountants	2
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GENERAL PURPOSE FINANCIAL STATEMENTS

A-1	Combined Balance Sheet - All Fund Types, Account Groups, and Discretely Presented Component Units	4
A-2	Combining Balance Sheet - Discretely Presented Component Units	8
A-3	Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - All Governmental Fund Types, Expendable Trust Funds, and Discretely Presented Component Unit	12
A-4	Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (non-GAAP Budgetary Basis) - General, Special Revenue, Debt Service, and Capital Projects Fund Types	14
A-5	Combined Statement of Revenues, Expenses, and Changes in Fund Equity - All Proprietary Fund Types, Similar Trust Funds, and Discretely Presented Component Units	16
A-6	Combining Statement of Revenues, Expenses, and Changes in Fund Equity - All Proprietary Fund Types - Discretely Presented Component Units	17
A-7	Combined Statement of Cash Flows - All Proprietary Fund Types, Similar Trust Funds, and Discretely Presented Component Units	18
A-8	Combining Statement of Cash Flows - Discretely Presented Component Units	22
A-9	Statement of Revenues, Expenditures, and Changes in Fund Balances - Higher Education Funds - Discretely Presented Component Unit	24
A-10	Statement of Current Funds Revenues, Expenditures, and Transfers - Higher Education Funds - Discretely Presented Component Unit	26
A-11	Combining Statement of Plan Net Assets - All Pension Trust Funds	27
A-12	Combined Statement of Changes in Net Assets - Pension and Investment Trust Funds	28
	Notes to Financial Statements	29

SUPPLEMENTARY DATA - Combining, Individual Fund, and Individual Account Group Financial Statements and Schedules

GOVERNMENTAL FUNDS

General Fund		
B-1	Balance Sheet	88
B-2	Statement of Revenues, Expenditures, and Changes in Fund Balance	89
B-3	Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	90

Exhibit	Description	Page
	Special Revenue Funds	
C-1	Combining Balance Sheet - All Special Revenue Funds	98
C-2	Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - All Special Revenue Funds	100
C-3	Combining Balance Sheet - Special Revenue Funds - General Government Activities	102
C-4	Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Special Revenue Funds - General Government Activities	103
C-5	Combining Balance Sheet - Special Revenue Funds - Transportation Activities	104
C-6	Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Special Revenue Funds - Transportation Activities	105
C-7	Combining Balance Sheet - Special Revenue Funds - Housing Activities	106
C-8	Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Special Revenue Funds - Housing Activities	107
	Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual:	
C-9	Recreation Special Revenue Fund	108
C-10	Bethesda Urban District Special Revenue Fund	109
C-11	Silver Spring Urban District Special Revenue Fund	110
C-12	Wheaton Urban District Special Revenue Fund	111
C-13	Economic Development Special Revenue Fund	112
C-14	Revenue Stabilization Special Revenue Fund	112
C-15	Storm Drainage Maintenance Special Revenue Fund	113
C-16	Mass Transit Facilities Special Revenue Fund	114
C-17	Bradley Noise Abatement District Special Revenue Fund	115
C-18	Cabin John Noise Abatement District Special Revenue Fund	115
C-19	Landlord Tenant Affairs Special Revenue Fund	116
C-20	Rehabilitation Loan Special Revenue Fund	117
C-21	Common Ownership Communities Special Revenue Fund	118
C-22	Housing Initiative Special Revenue Fund	119
C-23	New Home Warranty Security Special Revenue Fund	120
C-24	Cable TV Special Revenue Fund	121
C-25	Fire Tax District Special Revenue Fund	122
C-26	Drug Enforcement Forfeitures Special Revenue Fund	123
C-27	Child Day Care Facility Loan Special Revenue Fund	123
C-28	Grants Special Revenue Fund	124
	Debt Service Fund	
D-1	Balance Sheet	128
D-2	Statement of Revenues, Expenditures, and Changes in Fund Balance	129
D-3	Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	130

Exhibit	Description	Page
Capital Projects Fund		
E-1	Balance Sheet	132
E-2	Statement of Revenues, Expenditures, and Changes in Fund Balance	133
E-3	Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	134
PROPRIETARY FUNDS		
Enterprise Funds		
F-1	Combining Balance Sheet - All Enterprise Funds	136
F-2	Combining Statement of Revenues, Expenses, and Changes in Fund Equity - All Enterprise Funds	138
F-3	Combining Statement of Cash Flows - All Enterprise Funds	140
F-4	Schedule of Enterprise Funds - Reconciliation of Budgetary Expenditures to GAAP Expenses	142
Internal Service Funds		
G-1	Combining Balance Sheet - All Internal Service Funds	146
G-2	Combining Statement of Revenues, Expenses, and Changes in Fund Equity - All Internal Service Funds	147
G-3	Combining Statement of Cash Flows - All Internal Service Funds	148
G-4	Schedule of Internal Service Fund - Reconciliation of Budgetary Expenditures to GAAP Expenses	149
FIDUCIARY FUNDS		
Trust and Agency Funds		
H-1	Combining Balance Sheet - Fiduciary Fund Types	151
H-2	Combining Balance Sheet - All Expendable Trust Funds	152
H-3	Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - All Expendable Trust Funds	154
H-4	Combining Statement of Changes in Assets and Liabilities - All Agency Funds	156
H-5	Combining Statement of Plan Net Assets - All Pension Trust Funds	159
H-6	Combining Balance Sheet - All Nonexpendable Trust Funds	160
H-7	Combining Statement of Revenues, Expenses, and Changes in Fund Balances - All Nonexpendable Trust Funds	161
H-8	Combining Statement of Cash Flows - All Nonexpendable Trust Funds	162
INDIVIDUAL ACCOUNT GROUPS		
I-1	Schedule of General Fixed Assets - By Source	164
I-2	Schedule of General Fixed Assets - By Function	165
I-3	Schedule of Changes in General Fixed Assets - By Function	165
I-4	Schedule of General Long-Term Obligations	166

PART III - STATISTICAL SECTION - "Unaudited"**Table**

I	General Governmental Expenditures by Function - Last Ten Fiscal Years	168
II	General Revenues by Source - Last Ten Fiscal Years	169
III	Property Tax Levies and Collections - Last Ten Fiscal Years	169
IV	Assessed and Estimated Actual Value of Taxable Property - Last Ten Fiscal Years	170
V	Analysis of Change in Real Property Tax Base, By Classification of Property - Last Ten Fiscal Years	171
VI-a	Tax Rates and Tax Levies - Last Ten Fiscal Years - Taxes Applicable to Entire County	172
VI-b	Tax Rates and Tax Levies - Last Ten Fiscal Years - M-NCPPC and WSSC Sanitary District	173
VI-c	Tax Rates and Tax Levies - Last Ten Fiscal Years - Suburban District, Parking Lot Districts, Recreation, Storm Drainage, Urban Districts and Noise Abatement Districts	174
VI-d	Tax Rates and Tax Levies - Last Ten Fiscal Years - Fire Tax Districts	175
VI-e	Tax Rates and Tax Levies - Last Ten Fiscal Years - Towns and Cities	176
VI-f	Tax Rates and Tax Levies - Last Ten Fiscal Years - Villages	177
VII	Special Assessment Collections - Last Ten Fiscal Years	178
VIII	Ratio of General Bonded Debt to Assessed Value and Bonded Debt Per Capita - Last Ten Fiscal Years	179
IX	Computation of Legal Debt Margin	180
X	Computation of Net Direct and Overlapping Debt	181
XI	Ratio of Annual Debt Service Expenditures for General Bonded Debt to Total General Governmental Expenditures - Last Ten Fiscal Years	182
XII	Revenue Bond Coverage - Last Ten Fiscal Years	183
XIII	Demographic Statistics - Last Ten Fiscal Years	184
XIV	Building Permits, Market Value of New Construction Added to Taxable Real Property Tax Base, Commercial Bank Deposits, and Estimated Market Value of Taxable Real Property - Last Ten Fiscal Years	185
XV	Ten Highest Commercial Property Taxpayers	186
XVI	Miscellaneous Statistical Data	187
XVII	Schedule of Insurance in Force - Liability and Property Coverage Self Insurance Internal Service Fund	189
XVIII	Combined Schedule of "Cash and Investments" and "Investment and Interest Income" - All Funds	191
XIX	Combined Schedule of Cash and Investments - By Financial Institution	192
XX	Combined Schedule of Investments	193
XXI	Schedule of Delinquent Property Taxes Receivable by Fund Type	194
XXII	Schedule of Fiscal Year Property Tax Levy, Property Tax Revenues, and Additional Items Related to the Property Tax Billing	195
XXIII	Schedule of Cumulative Appropriations, Expenditures, and Encumbrances - Capital Projects	196
XXIV	Schedule of Revenues, Expenses, and Changes in Retained Earnings by Participant - Liability and Property Coverage and Employee Health Benefits Self Insurance Funds	204

PART IV - INDEX

Fund Titles/Account Groups	207
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PART II
FINANCIAL SECTION

ARTHUR ANDERSEN LLP

Report of Independent Public Accountants

To the Honorable County Council of
Montgomery County, Maryland:

We have audited the accompanying general purpose financial statements (identified as Exhibits A-1 through A-12 in the accompanying Table of Contents) and the combining and individual fund and account group financial statements and schedules (identified as Exhibits B-1 through I-4 in the accompanying Table of Contents) of Montgomery County, Maryland (the "County"), as of and for the year ended June 30, 1998. These financial statements and schedules are the responsibility of the County's management. Our responsibility is to express our opinion on these financial statements and schedules based on our audit. We did not audit the financial statements of the Montgomery County Public Schools, the Montgomery Community College, the Montgomery County Revenue Authority, the Housing Opportunities Commission of Montgomery County, and the Bethesda Urban Partnership, Inc. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion on the general purpose financial statements, insofar as it relates to the amounts included for those entities, is based solely on the reports of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards (1994 Revision), issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the County as of June 30, 1998, and the results of its operations and cash flows of its proprietary fund types and non-expendable trust funds for the year then ended in conformity with generally accepted accounting principles. Also, in our opinion, the combining and individual fund and account group financial statements and schedules referred to above present fairly, in all material respects, the financial position of each of the individual funds and account groups of the County as of June 30, 1998, and the results of operations of such funds and the cash flows of its proprietary fund types and nonexpendable trust funds for the year then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated November 30, 1998 on our consideration of the County's internal control structure, and our tests of our financial reporting on its compliance with certain provisions of laws, regulations, contracts and grants.

The schedule of historical pension information in Note 17 to the general purpose financial statements is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures that consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

The year 2000 supplementary information in Note 18 to the general purpose financial statements is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures that consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it. In addition, we do not provide assurance that the County is or will become year 2000 compliant, that the County's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the County does business are or will become year 2000 compliant.

Washington, D.C.
November 30, 1998, except for
Note 18, as to which the date is
June 25, 1999.

Arthur Andersen LLP

GENERAL PURPOSE FINANCIAL STATEMENTS

The general purpose financial statements include all funds, account groups, and component units of Montgomery County. They serve as an introduction to the more detailed statements, schedules, and additional information that are in the following sections.

MONTGOMERY COUNTY, MARYLAND
 COMBINED BALANCE SHEET - ALL FUND TYPES, ACCOUNT GROUPS, AND DISCRETELY PRESENTED COMPONENT UNITS
 JUNE 30, 1998
 Exhibit A-1

	Governmental Fund Types				Proprietary
	General	Special Revenue	Debt Service	Capital Projects	Fund Types Enterprise
ASSETS AND OTHER DEBITS					
Assets:					
Equity in pooled cash and investments	\$ 147,822,871	\$ 93,404,609	\$ 1,241,840	\$ 62,988,968	\$ 79,983,361
Cash with fiscal agents	-	-	17,299,931	-	-
Cash	175,247	19,450	-	-	29,978
Cash and cash equivalents - nonexpendable trust	-	-	-	-	-
Investments - cash equivalents	-	-	-	-	-
Investments	-	-	-	-	-
Deferred compensation invested with fiscal agents	-	-	-	-	-
Receivables (net of allowances for uncollectibles):					
Income taxes	110,758,061	-	-	-	-
Property taxes	19,944,748	4,144,119	1,658	-	859,298
Accounts	16,696,263	1,991,481	-	770,986	5,331,719
Special assessments	-	-	353,454	-	-
Notes	-	558,829	-	-	-
Parking violations	1,393,496	-	-	-	2,383,270
Mortgages	245,017	31,706,975	-	-	-
Interest	-	-	-	-	-
Other	-	43,244	-	-	-
Due from other funds	61,739,418	1,061,102	-	-	-
Due from primary government	-	-	-	-	-
Due from component units	364,144	10,298,299	-	8,222,208	73,285
Due from other governments	17,562,185	16,487,709	-	8,479,118	530,218
Property liens acquired at tax sale	507,430	-	-	-	-
Inventory of supplies	1,948,887	-	-	3,080,089	19,167,335
Group annuity contract	-	-	-	-	-
Prepays	261,881	136,253	-	-	287,481
Unamortized bond costs	-	-	-	-	2,112,812
Restricted Assets:					
Equity in pooled cash and investments	-	-	-	-	27,491,458
Cash	-	-	-	-	-
Cash with fiscal agents	-	-	-	-	-
Investments - cash equivalents	-	-	-	-	-
Investments	-	-	-	-	4,325,060
Fixed assets (net of accumulated depreciation)	-	-	-	-	142,752,926
Other assets	-	-	-	-	105,461
Other Debits:					
Amounts to be Provided for:					
Retirement of general obligation bonds	-	-	-	-	-
Retirement of bond anticipation notes	-	-	-	-	-
Loans payable	-	-	-	-	-
Compensated absences	-	-	-	-	-
Claims and judgments	-	-	-	-	-
Capital leases	-	-	-	-	-
Equipment purchase contracts	-	-	-	-	-
Other long-term debt	-	-	-	-	-
Total Assets and Other Debits	\$ 379,419,648	\$ 159,852,070	\$ 18,896,883	\$ 83,541,369	\$ 285,433,662

(Continued)

Proprietary Fund Types	Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)		Component Units	Totals (Memorandum Only)
		General Fixed Assets	General Long- Term Obligations	Primary Government	Reporting Entity		
\$ 87,496,891	\$ 98,245,392	\$ -	\$ -	\$ 571,183,932	\$ 18,724,135	\$ 589,908,067	
-	-	-	-	17,299,931	2,102,540	19,402,471	
300	110,468	-	-	335,443	13,536,085	13,871,528	
-	2,182,283	-	-	2,182,283	-	2,182,283	
-	-	-	-	-	26,216,797	26,216,797	
389,625	1,814,731,074	-	-	1,815,120,699	699,496,459	2,514,617,158	
-	143,438,009	-	-	143,438,009	-	143,438,009	
-	-	-	-	110,758,061	-	110,758,061	
-	4,712,733	-	-	29,662,556	-	29,662,556	
53,390	3,031,573	-	-	27,875,412	10,303,612	38,179,024	
-	-	-	-	353,454	-	353,454	
-	-	-	-	558,829	1,820,356	2,379,185	
-	-	-	-	3,776,766	-	3,776,766	
-	-	-	-	31,951,992	304,844,914	336,796,906	
-	105,227	-	-	105,227	4,939,969	5,045,196	
-	1,003,016	-	-	1,046,260	3,573,603	4,619,863	
2,722,367	4,127,211	-	-	69,650,098	35,125,722	104,775,820	
-	-	-	-	-	91,260,379	91,260,379	
302,903	47,035	-	-	19,307,874	-	19,307,874	
546,422	1,456,651	-	-	45,062,303	36,310,971	81,373,274	
-	-	-	-	507,430	-	507,430	
1,909,970	-	-	-	26,106,281	6,559,690	32,665,971	
-	77,443,534	-	-	77,443,534	-	77,443,534	
122,169	352	-	-	808,136	147,210	955,346	
-	-	-	-	2,112,812	463,165	2,575,977	
-	-	-	-	27,491,458	1,681,565	29,173,023	
-	-	-	-	-	2,645,118	2,645,118	
-	-	-	-	-	513,492	513,492	
-	-	-	-	-	123,815,894	123,815,894	
-	-	-	-	4,325,060	115,020,635	119,345,695	
19,962,638	-	1,657,596,088	-	1,820,311,652	1,863,932,920	3,684,244,572	
-	-	-	-	105,461	35,271,169	35,376,630	
-	-	-	1,053,839,413	1,053,839,413	-	1,053,839,413	
-	-	-	150,000,000	150,000,000	-	150,000,000	
-	-	-	-	-	2,245,979	2,245,979	
-	-	-	33,911,298	33,911,298	54,136,950	88,048,248	
-	-	-	250,000	250,000	-	250,000	
-	-	-	437,507	437,507	13,975,405	14,412,912	
-	-	-	89,807	89,807	-	89,807	
-	-	-	-	-	5,535,388	5,535,388	
\$ 113,506,675	\$ 2,150,634,558	\$ 1,657,596,088	\$ 1,238,528,025	\$ 6,087,408,978	\$ 3,474,200,122	\$ 9,561,609,100	

MONTGOMERY COUNTY, MARYLAND
 COMBINED BALANCE SHEET - ALL FUND TYPES, ACCOUNT GROUPS, AND
 DISCRETELY PRESENTED COMPONENT UNITS, CONCLUDED
 JUNE 30, 1998
Exhibit A-1

	Governmental Fund Types				Proprietary
	General	Special Revenue	Debt Service	Capital Projects	Fund Types Enterprise
LIABILITIES, EQUITY, AND OTHER CREDITS					
Liabilities:					
Accounts/vouchers payable	\$ 18,449,934	\$ 4,752,068	\$ 75,541	\$ 8,658,445	\$ 12,687,483
Interest payable	-	-	-	-	454,002
Retainage payable	166,872	-	-	3,316,237	880,140
Accrued liabilities	15,217,441	5,965,038	-	545,493	8,282,249
Claims payable	-	-	-	-	-
Deposits	-	75,796	-	-	-
Due to other funds	4,303,655	5,868,261	17,299,931	41,606,845	410,593
Due to primary government	-	-	-	-	-
Due to component units	35,659,625	2,691,287	-	-	249,170
Due to other governments	29,284	333,265	-	632,722	1,066,894
Due to participants in deferred compensation plan	-	-	-	-	-
Other liabilities	-	-	-	-	-
Deferred revenue	139,703,163	20,794,258	1,521,411	9,495,048	-
Property tax refunds due	-	-	-	-	-
Tax sale surplus and redemptions due	-	-	-	-	-
Notes payable	-	-	-	-	-
General obligation bonds payable	-	-	-	-	3,623,641
Bond anticipation notes payable	-	-	-	-	-
Revenue bonds payable	-	-	-	-	80,200,855
Compensated absences payable	-	-	-	-	-
Claims and judgments	-	-	-	-	-
Capital leases payable	-	-	-	-	-
Equipment purchase contracts payable	-	-	-	-	-
Mortgages payable	-	-	-	-	-
Landfill closure costs	-	-	-	-	42,574,900
Other long-term debt	-	-	-	-	-
Total Liabilities	213,529,974	40,479,973	18,896,883	64,254,790	150,429,927
Equity and Other Credits:					
Contributed capital	-	-	-	-	866,638
Investment in general fixed assets	-	-	-	-	-
Net assets of component units	-	-	-	-	-
Retained Earnings:					
Reserved	-	-	-	-	27,719,053
Unreserved	-	-	-	-	106,418,044
Fund balances:					
Reserved	19,915,257	30,446,803	-	60,796,392	-
Unreserved:					
Designated	72,759,018	11,110,743	-	-	-
Undesignated (deficit)	73,215,399	77,814,551	-	(41,509,813)	-
Total Equity and Other Credits	165,889,674	119,372,097	-	19,286,579	135,003,735
Total Liabilities, Equity, and Other Credits	\$ 379,419,648	\$ 159,852,070	\$ 18,896,883	\$ 83,541,369	\$ 285,433,662

Notes to Financial Statements are an integral part of this statement.

Proprietary Fund Types	Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)		Component Units	Totals (Memorandum Only) Reporting Entity
		General Fixed Assets	General Long- Term Obligations	Primary Government			
\$ 4,198,902	\$ 130,780,736	\$ -	\$ -	\$ 179,603,109	\$ 51,043,176	\$ 230,646,285	
-	-	-	-	454,002	19,374,231	19,828,233	
-	-	-	-	4,363,249	8,534,978	12,898,227	
2,260,838	142,535	-	-	32,413,594	47,660,403	80,073,997	
45,585,152	-	-	-	45,585,152	16,907,477	62,492,629	
-	1,298,741	-	-	1,374,537	826,816	2,201,353	
160,223	590	-	-	69,650,098	35,125,722	104,775,820	
-	-	-	-	-	19,307,874	19,307,874	
-	54,050,321	-	-	92,650,403	-	92,650,403	
-	5,027,210	-	-	7,089,375	-	7,089,375	
-	143,438,009	-	-	143,438,009	-	143,438,009	
-	8,442,759	-	-	8,442,759	32,554,423	40,997,182	
107,079	3,363,922	-	-	174,984,881	6,789,198	181,774,079	
-	14,394,941	-	-	14,394,941	-	14,394,941	
-	1,170,393	-	-	1,170,393	-	1,170,393	
-	-	-	-	-	22,138,186	22,138,186	
-	-	-	1,053,839,413	1,057,463,054	-	1,057,463,054	
-	-	-	150,000,000	150,000,000	-	150,000,000	
-	-	-	-	80,200,855	635,661,502	715,862,357	
-	-	-	33,911,298	33,911,298	57,076,067	90,987,365	
-	-	-	250,000	250,000	-	250,000	
-	-	-	437,507	437,507	15,188,313	15,625,820	
-	-	-	89,807	89,807	-	89,807	
-	-	-	-	-	1,621,638	1,621,638	
-	-	-	-	42,574,900	-	42,574,900	
-	-	-	-	-	5,535,388	5,535,388	
52,312,194	362,110,157	-	1,238,528,025	2,140,541,923	975,345,392	3,115,887,315	
13,150,177	-	-	-	14,016,815	23,705,669	37,722,484	
-	-	1,657,596,088	-	1,657,596,088	1,578,517,556	3,236,113,644	
-	-	-	-	-	723,530	723,530	
-	-	-	-	27,719,053	33,148,796	60,867,849	
48,044,304	-	-	-	154,462,348	141,654,584	296,116,932	
-	1,773,731,933	-	-	1,884,890,385	705,080,103	2,589,970,488	
-	14,792,468	-	-	98,662,229	9,673,573	108,335,802	
-	-	-	-	109,520,137	6,350,919	115,871,056	
61,194,481	1,788,524,401	1,657,596,088	-	3,946,867,055	2,498,854,730	6,445,721,785	
<u>\$ 113,506,675</u>	<u>\$ 2,150,634,558</u>	<u>\$ 1,657,596,088</u>	<u>\$ 1,238,528,025</u>	<u>\$ 6,087,408,978</u>	<u>\$ 3,474,200,122</u>	<u>\$ 9,561,609,100</u>	

Montgomery County Revenue Authority	Housing Opportunities Commission of Montgomery County	Bethesda Urban Partnership, Incorporated	Totals
\$ -	\$ 3,509,440	\$ -	\$ 18,724,135
-	1,564,172	-	2,102,540
1,043,803	1,813,502	280,392	13,536,085
2,716,118	2,847,211	-	26,216,797
-	203,062	-	699,496,459
32,646	371,586	6,965	10,303,612
-	9,329	-	1,820,356
-	304,844,914	-	304,844,914
-	4,939,969	-	4,939,969
534,272	-	-	3,573,603
-	20,253,206	-	35,125,722
8,190	352,566	-	91,260,379
236,245	10,664,319	-	36,310,971
83,978	-	-	6,559,690
62,844	-	10,628	147,210
463,165	-	-	463,165
-	1,681,565	-	1,681,565
621,547	2,023,571	-	2,645,118
-	513,492	-	513,492
8,583,991	115,231,903	-	123,815,894
-	115,020,635	-	115,020,635
45,521,146	232,943,739	261,307	1,863,932,920
-	35,271,169	-	35,271,169
-	-	-	2,245,979
-	-	-	54,136,950
-	-	-	13,975,405
-	-	-	5,535,388
<u>\$ 59,907,945</u>	<u>\$ 854,059,350</u>	<u>\$ 559,292</u>	<u>\$ 3,474,200,122</u>

MONTGOMERY COUNTY, MARYLAND
 COMBINING BALANCE SHEET - DISCRETELY PRESENTED COMPONENT UNITS, CONCLUI
 JUNE 30, 1998
Exhibit A-2

	Montgomery County Public Schools	Montgomery Community College
LIABILITIES, EQUITY, AND OTHER CREDITS		
Liabilities:		
Accounts/vouchers payable	\$ 17,096,995	\$ 19,535,213
Interest payable	53,610	-
Retainage payable	7,794,988	579,782
Accrued liabilities	41,195,520	6,236,919
Claims payable	16,907,477	-
Deposits	-	-
Due to other funds	11,047,597	3,824,919
Due to primary government	81,267	202,180
Other liabilities	12,250,444	318,061
Deferred revenue	1,775,741	2,233,417
Notes payable	-	-
Revenue bonds payable	-	-
Compensated absences payable	57,076,067	-
Capital leases payable	15,188,313	-
Mortgages payable	-	-
Other long-term debt	5,535,388	-
	<u>186,003,407</u>	<u>32,930,491</u>
Equity and Other Credits:		
Contributed capital	16,783,949	-
Investment in general fixed assets	1,485,444,936	93,072,620
Net assets of component units	723,530	-
Retained Earnings:		
Reserved	32,751,733	-
Unreserved (deficit)	(8,634,440)	-
Fund Balances:		
Reserved	702,306,979	2,596,353
Unreserved:		
Designated	-	9,673,573
Undesignated (deficit)	(6,521,791)	12,542,195
	<u>2,222,854,896</u>	<u>117,884,741</u>
Total Equity and Other Credits	<u>2,222,854,896</u>	<u>117,884,741</u>
Total Liabilities, Equity, and Other Credits	<u>\$ 2,408,858,303</u>	<u>\$ 150,815,232</u>

Notes to Financial Statements are an integral part of this statement.

Montgomery County Revenue Authority	Housing Opportunities Commission of Montgomery County	Bethesda Urban Partnership, Incorporated	Totals
\$ 986,349	\$ 13,400,454	\$ 24,165	\$ 51,043,176
555,197	18,765,424	-	19,374,231
160,208	-	-	8,534,978
202,149	-	25,815	47,660,403
-	-	-	16,907,477
31,157	795,659	-	826,816
-	20,253,206	-	35,125,722
50,245	18,972,156	2,026	19,307,874
-	19,985,918	-	32,554,423
-	2,780,040	-	6,789,198
-	22,138,186	-	22,138,186
39,344,670	596,316,832	-	635,661,502
-	-	-	57,076,067
-	-	-	15,188,313
1,621,638	-	-	1,621,638
-	-	-	5,535,388
<u>42,951,613</u>	<u>713,407,875</u>	<u>52,006</u>	<u>975,345,392</u>
6,921,720	-	-	23,705,669
-	-	-	1,578,517,556
-	-	-	723,530
397,063	-	-	33,148,796
9,637,549	140,651,475	-	141,654,584
-	-	176,771	705,080,103
-	-	-	9,673,573
-	-	330,515	6,350,919
<u>16,956,332</u>	<u>140,651,475</u>	<u>507,286</u>	<u>2,498,854,730</u>
<u>\$ 59,907,945</u>	<u>\$ 854,059,350</u>	<u>\$ 559,292</u>	<u>\$ 3,474,200,122</u>

MONTGOMERY COUNTY, MARYLAND
 COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 ALL GOVERNMENTAL FUND TYPES, EXPENDABLE TRUST FUNDS, AND DISCRETELY PRESENTED COMPONENT UNIT
 FOR THE FISCAL YEAR ENDED JUNE 30, 1998
Exhibit A-3

	Governmental Fund Types		
	General	Special Revenue	Debt Service
Revenues:			
Taxes	\$ 1,335,742,915	\$ 127,038,417	\$ -
Licenses and permits	4,284,392	3,056,120	-
Intergovernmental	87,994,220	106,152,576	15,750
Charges for services	8,319,726	24,100,078	97,392
Fines and forfeitures	3,042,264	560,810	-
Investment income	16,292,344	5,652,132	3,140,134
Miscellaneous	5,871,492	1,251,909	52,422
Total Revenues	<u>1,461,547,353</u>	<u>267,812,042</u>	<u>3,305,698</u>
Expenditures:			
Current:			
General government	120,276,401	5,058,544	-
Public safety	145,009,107	89,503,042	-
Public works and transportation	27,872,360	93,492,201	-
Health and human services	102,606,898	28,984,499	-
Culture and recreation	26,982,130	21,218,991	-
Community development and housing	2,475,557	6,169,758	-
Environment	2,349,418	62,370	-
Education	-	-	-
Capital Projects	-	-	-
Debt Service:			
General obligation bond principal retirement	-	-	80,441,346
General obligation bond interest	-	-	53,398,815
Bond anticipation note repayment	-	-	115,000,000
Bond anticipation note interest	-	-	5,446,988
Issuing costs	-	-	1,089,779
Long term purchase lease costs	-	-	28,707
Long term purchase leases	-	-	2,179,145
Capital leases	-	-	348,354
Equipment purchase contracts	-	-	87,466
Total Expenditures	<u>427,571,871</u>	<u>244,489,405</u>	<u>258,020,600</u>
Excess of Revenues over (under) Expenditures	<u>1,033,975,482</u>	<u>23,322,637</u>	<u>(254,714,902)</u>
Other Financing Sources (Uses):			
Capital lease financing	-	-	-
Equipment purchase contract financing	225,065	-	-
Operating transfers in	26,003,096	30,707,704	140,769,235
Operating transfers in - primary government	-	-	-
Operating transfers in - component units	100,295	-	-
Operating transfers (out)	(173,542,101)	(25,795,544)	(1,873,634)
Operating transfers (out) - component units	(833,401,941)	-	-
Sale of property	-	1,332,597	-
Payments to refunded bond escrow agent	-	-	(70,807,286)
Proceeds of bond anticipation notes	-	-	-
Proceeds of general obligation refunding bonds	-	-	70,990,985
Proceeds of general obligation bonds	-	-	115,635,602
Total Other Financing Sources (Uses)	<u>(980,615,586)</u>	<u>6,244,757</u>	<u>254,714,902</u>
Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	53,359,896	29,567,394	-
Fund Balances - Beginning of Year, as restated	112,543,778	89,821,193	-
Equity Transfers In (Out)	(14,000)	(16,490)	-
Fund Balances - End of Year	<u>\$ 165,889,674</u>	<u>\$ 119,372,097</u>	<u>\$ -</u>

Notes to Financial Statements are an integral part of this statement.

<u>Capital Projects</u>	<u>Fiduciary Fund Type Expendable Trust</u>	<u>Totals (Memorandum Only) Primary Government</u>	<u>Component Unit Montgomery County Public Schools</u>	<u>Totals (Memorandum Only) Reporting Entity</u>
\$ 1,021,211	\$ 535,321	\$ 1,464,337,864	\$ -	\$ 1,464,337,864
-	-	7,340,512	-	7,340,512
14,564,398	-	208,726,944	286,294,090	495,021,034
1,712,212	-	34,229,408	-	34,229,408
-	-	3,603,074	-	3,603,074
68,090	202,254	25,354,954	-	25,354,954
891,898	1,907,576	9,975,297	4,230,751	14,206,048
<u>18,257,809</u>	<u>2,645,151</u>	<u>1,753,568,053</u>	<u>290,524,841</u>	<u>2,044,092,894</u>
-	1,649,071	126,984,016	-	126,984,016
-	44,542	234,556,691	-	234,556,691
-	-	121,364,561	-	121,364,561
-	153,001	131,744,398	-	131,744,398
-	-	48,201,121	-	48,201,121
-	-	8,645,315	-	8,645,315
-	-	2,411,788	-	2,411,788
-	-	-	1,023,878,290	1,023,878,290
85,484,745	-	85,484,745	121,980,892	207,465,637
-	-	80,441,346	-	80,441,346
-	-	53,398,815	-	53,398,815
-	-	115,000,000	-	115,000,000
-	-	5,446,988	-	5,446,988
-	-	1,089,779	-	1,089,779
-	-	28,707	-	28,707
-	-	2,179,145	-	2,179,145
-	-	348,354	-	348,354
-	-	87,466	-	87,466
<u>85,484,745</u>	<u>1,846,614</u>	<u>1,017,413,235</u>	<u>1,145,859,182</u>	<u>2,163,272,417</u>
<u>(67,226,936)</u>	<u>798,537</u>	<u>736,154,818</u>	<u>(855,334,341)</u>	<u>(119,179,523)</u>
-	-	-	7,791,983	7,791,983
-	-	225,065	-	225,065
19,181,044	-	216,661,079	223,026	216,884,105
-	-	-	929,280,796	929,280,796
-	-	100,295	-	100,295
(895,385)	(669,527)	(202,776,191)	-	(202,776,191)
(149,800,000)	-	(983,201,941)	-	(983,201,941)
4,068,214	-	5,400,811	-	5,400,811
-	-	(70,807,286)	-	(70,807,286)
225,000,000	-	225,000,000	-	225,000,000
-	-	70,990,985	-	70,990,985
-	-	115,635,602	-	115,635,602
<u>97,553,873</u>	<u>(669,527)</u>	<u>(622,771,581)</u>	<u>937,295,805</u>	<u>314,524,224</u>
30,326,937	129,010	113,383,237	81,961,464	195,344,701
(11,040,358)	3,820,321	195,144,934	(28,691,809)	166,453,125
-	-	(30,490)	-	(30,490)
<u>\$ 19,286,579</u>	<u>\$ 3,949,331</u>	<u>\$ 308,497,681</u>	<u>\$ 53,269,655</u>	<u>\$ 361,767,336</u>

MONTGOMERY COUNTY, MARYLAND
 COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
 BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 GENERAL, SPECIAL REVENUE, DEBT SERVICE, AND CAPITAL PROJECTS FUND TYPES
 FOR THE FISCAL YEAR ENDED JUNE 30, 1998
Exhibit A-4

	General Fund			Special Revenue Funds		
	Total Budget	Actual	Variance Favorable (Unfavorable)	Total Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Taxes	\$ 1,230,748,840	\$ 1,335,742,915	\$ 104,994,075	\$ 125,722,710	\$ 127,038,417	\$ 1,315,707
Licenses and permits	4,287,480	4,284,392	(3,088)	2,812,350	3,056,120	243,770
Intergovernmental	84,488,370	87,994,220	3,505,850	150,543,333	111,617,188	(38,926,145)
Charges for services	8,474,320	8,319,726	(154,594)	23,720,010	24,100,078	380,068
Fines and forfeitures	3,328,250	3,042,264	(285,986)	-	560,810	560,810
Investment income	15,368,150	15,735,564	367,414	4,940,113	5,651,941	711,828
Miscellaneous	5,812,937	7,071,441	1,258,504	865,450	1,846,181	980,731
Total Revenues	1,352,508,347	1,462,190,522	109,682,175	308,603,966	273,870,735	(34,733,231)
Expenditures:						
Current:						
General government	133,696,427	130,541,248	3,155,179	33,461,497	5,555,781	27,905,716
Public safety	146,033,164	145,807,258	225,906	94,989,130	92,196,374	2,792,756
Public works and transportation	29,653,695	29,303,085	350,610	98,074,062	97,815,006	259,056
Health and human services	109,426,120	106,850,279	2,575,841	30,142,220	26,973,683	3,168,537
Culture and recreation	27,779,272	27,699,078	80,194	21,997,349	21,681,378	315,971
Community development and housing	2,512,864	2,484,460	28,404	19,556,053	10,413,535	9,142,518
Environment	2,366,061	2,365,887	174	97,732	62,370	35,362
Capital Projects	-	-	-	-	-	-
Debt Service:						
General obligation bond principal retirement	-	-	-	-	-	-
General obligation bond interest	-	-	-	-	-	-
Bond anticipation note interest	-	-	-	-	-	-
Issuing costs	-	-	-	-	-	-
Capital leases	-	-	-	-	-	-
Equipment purchase leases	-	-	-	-	-	-
Long term leases	-	-	-	-	-	-
Total Expenditures	451,467,603	445,051,295	6,416,308	298,318,043	254,698,127	43,619,916
Excess of Revenues over (under) Expenditures	901,040,744	1,017,139,227	116,098,483	10,285,923	19,172,608	8,886,685
Other Financing Sources (Uses):						
Operating transfers in	25,139,830	26,003,096	863,266	8,807,671	30,136,434	21,328,763
Operating transfers (out)	(169,827,677)	(173,521,216)	(3,693,539)	(36,337,738)	(30,378,127)	5,959,611
Operating transfers in - component units	-	100,295	100,295	-	-	-
Operating transfers (out) - component units	(835,639,782)	(833,422,826)	2,216,956	-	-	-
Mortgage/loan disbursement/repayment	-	-	-	(916,402)	654,350	1,570,752
Sale of land	-	-	-	-	1,332,597	1,332,597
Proceeds of bond anticipation notes	-	-	-	-	-	-
Proceeds of general obligation refunding bonds	-	-	-	-	-	-
Premium on general obligation bonds	-	-	-	-	-	-
Total Other Financing Sources (Uses)	(980,327,629)	(980,840,651)	(513,022)	(28,446,469)	1,745,254	30,191,723
Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	(79,286,885)	36,298,576	115,585,461	(18,160,546)	20,917,862	39,078,408
Fund Balances - Beginning of Year	112,245,875	112,245,875	-	68,518,133	68,518,133	-
Equity Transfer In (Out)	(14,000)	(14,000)	-	(16,490)	(16,490)	-
Fund Balances (Deficit) - End of Year	\$ 32,944,990	\$ 148,530,451	\$ 115,585,461	\$ 50,341,097	\$ 89,419,505	\$ 39,078,408

Notes to Financial Statements are an integral part of this statement.

Debt Service Fund			Capital Projects Fund			Totals (Memorandum Only)		
Total Budget	Actual	Variance Favorable (Unfavorable)	Total Budget	Actual	Variance Favorable (Unfavorable)	Total Budget	Actual	Variance Favorable (Unfavorable)
\$ -	\$ -	\$ -	\$ 28,562,553	\$ 1,021,211	\$ (27,541,342)	\$ 1,385,034,103	\$ 1,463,802,543	\$ 78,768,440
-	-	-	-	-	-	7,099,830	7,340,512	240,682
15,750	15,750	-	78,741,149	14,825,963	(63,915,186)	313,788,602	214,453,121	(99,335,481)
120,000	97,392	(22,608)	10,466,603	1,712,212	(8,754,391)	42,780,933	34,229,408	(8,551,525)
-	-	-	-	-	-	3,328,250	3,603,074	274,824
6,673,220	3,140,134	(3,533,086)	-	68,090	68,090	26,981,483	24,595,729	(2,385,754)
274,900	52,422	(222,478)	10,424,645	891,898	(9,532,747)	17,377,932	9,861,942	(7,515,990)
<u>7,083,870</u>	<u>3,305,698</u>	<u>(3,778,172)</u>	<u>128,194,950</u>	<u>18,519,374</u>	<u>(109,675,576)</u>	<u>1,796,391,133</u>	<u>1,757,886,329</u>	<u>(38,504,804)</u>
-	-	-	-	-	-	167,157,924	136,097,029	31,060,895
-	-	-	-	-	-	241,022,294	238,003,632	3,018,662
-	-	-	-	-	-	127,727,757	127,118,091	609,666
-	-	-	-	-	-	139,568,340	133,823,962	5,744,378
-	-	-	-	-	-	49,776,621	49,380,456	396,165
-	-	-	-	-	-	22,068,917	12,897,995	9,170,922
-	-	-	-	-	-	2,463,793	2,428,257	35,536
-	-	-	272,404,465	136,746,619	135,657,846	272,404,465	136,746,619	135,657,846
80,876,636	80,441,346	435,290	-	-	-	80,876,636	80,441,346	435,290
55,278,464	53,398,815	1,879,649	-	-	-	55,278,464	53,398,815	1,879,649
6,402,750	5,446,988	955,762	-	-	-	6,402,750	5,446,988	955,762
909,750	909,748	2	-	-	-	909,750	909,748	2
348,356	348,354	2	-	-	-	348,356	348,354	2
87,466	87,466	-	-	-	-	87,466	87,466	-
3,921,520	2,207,852	1,713,668	-	-	-	3,921,520	2,207,852	1,713,668
<u>147,824,942</u>	<u>142,840,569</u>	<u>4,984,373</u>	<u>272,404,465</u>	<u>136,746,619</u>	<u>135,657,846</u>	<u>1,170,015,053</u>	<u>979,336,610</u>	<u>190,678,443</u>
<u>(140,741,072)</u>	<u>(139,534,871)</u>	<u>1,206,201</u>	<u>(144,209,515)</u>	<u>(118,227,245)</u>	<u>25,982,270</u>	<u>626,376,080</u>	<u>778,549,719</u>	<u>152,173,639</u>
142,614,706	140,769,235	(1,845,471)	46,015,858	22,748,378	(23,267,480)	222,578,065	219,657,143	(2,920,922)
(1,873,634)	(1,873,634)	-	-	(895,385)	(895,385)	(208,039,049)	(206,668,362)	1,370,687
-	-	-	-	906,974	906,974	-	1,007,269	1,007,269
-	-	-	-	-	-	(835,639,782)	(833,422,826)	2,216,956
-	-	-	-	-	-	(916,402)	654,350	1,570,752
-	-	-	463,271	4,068,214	3,604,943	463,271	5,400,811	4,937,540
-	-	-	-	73,138,880	73,138,880	-	73,138,880	73,138,880
-	3,668	3,668	126,960,642	-	(126,960,642)	126,960,642	3,668	(126,956,974)
-	635,602	635,602	-	-	-	-	635,602	635,602
<u>140,741,072</u>	<u>139,534,871</u>	<u>(1,206,201)</u>	<u>173,439,771</u>	<u>99,967,061</u>	<u>(73,472,710)</u>	<u>(694,593,255)</u>	<u>(739,593,465)</u>	<u>(45,000,210)</u>
-	-	-	29,230,256	(18,260,184)	(47,490,440)	(68,217,175)	38,956,254	107,173,429
-	-	-	12,418,104	12,418,104	-	193,182,112	193,182,112	-
-	-	-	-	-	-	(30,490)	(30,490)	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 41,648,360</u>	<u>\$ (5,842,080)</u>	<u>\$ (47,490,440)</u>	<u>\$ 124,934,447</u>	<u>\$ 232,107,876</u>	<u>\$ 107,173,429</u>

MONTGOMERY COUNTY, MARYLAND
 COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY
 ALL PROPRIETARY FUND TYPES, SIMILAR TRUST FUNDS, AND DISCRETELY PRESENTED COMPONENT UNITS
 FOR THE FISCAL YEAR ENDED JUNE 30, 1998
Exhibit A-5

	Proprietary Fund Types		Fiduciary	Totals	Component	Totals
	Enterprise	Internal Service	Fund Type Nonexpendable Trust	(Memorandum Only) Primary Government		Units
Operating Revenues:						
Sales - net	\$ 114,528,681	\$ -	\$ -	\$ 114,528,681	\$ 17,239,288	\$ 131,767,969
Charges for services	98,369,904	110,664,464	-	209,034,368	13,195,009	222,229,377
Licenses and permits	9,261,208	-	-	9,261,208	-	9,261,208
Fines and penalties	4,718,806	-	-	4,718,806	-	4,718,806
Rentals, concessions, leases, subsidies, and commitment fees	-	-	-	-	36,751,246	36,751,246
Contributions	-	-	100,000	100,000	123,709,464	123,809,464
Investment income	-	-	2,366,335	2,366,335	102,875,234	105,241,569
Other	-	805,109	-	805,109	953	806,062
Total Operating Revenues	<u>226,878,599</u>	<u>111,469,573</u>	<u>2,466,335</u>	<u>340,814,507</u>	<u>293,771,194</u>	<u>634,585,701</u>
Operating Expenses:						
Cost of goods sold	82,975,466	-	-	82,975,466	8,564,839	91,540,305
Personnel costs	32,066,803	11,119,821	-	43,186,624	37,049,264	80,235,888
Housing assistance payments	-	-	-	-	32,284,114	32,284,114
Postage	-	1,101,707	-	1,101,707	170,522	1,272,229
Self-insurance incurred and estimated claim	-	47,150,629	-	47,150,629	71,920,311	119,070,940
Insurance	285,551	18,757,787	-	19,043,338	29,575,638	48,618,976
Supplies and materials	1,243,401	4,803,340	-	6,046,741	2,840,356	8,887,097
Contractual services	75,410,039	10,317,322	-	85,727,361	7,047,827	92,775,188
Communications	392,369	71,726	-	464,095	425,619	889,714
Transportation	1,886,815	50,832	-	1,937,647	300,049	2,237,696
Public utility services	1,759,264	401,667	-	2,160,931	3,297,936	5,458,867
Rentals	3,626,132	267,294	-	3,893,426	216,887	4,110,313
Maintenance	1,119,475	6,598,984	-	7,718,459	9,102,142	16,820,601
Benefits	-	-	-	-	24,806,658	24,806,658
Lease activities	-	-	-	-	3,123,967	3,123,967
Depreciation and amortization	6,800,879	4,991,576	-	11,792,455	11,663,050	23,455,505
Landfill closure costs	1,376,702	-	-	1,376,702	-	1,376,702
Miscellaneous	1,624,093	1,102,255	-	2,726,348	6,425,265	9,151,613
Total Operating Expenses	<u>210,566,989</u>	<u>106,734,940</u>	<u>-</u>	<u>317,301,929</u>	<u>248,814,444</u>	<u>566,116,373</u>
Operating Income	<u>16,311,610</u>	<u>4,734,633</u>	<u>2,466,335</u>	<u>23,512,578</u>	<u>44,956,750</u>	<u>68,469,328</u>
Nonoperating Revenues (Expenses):						
Property taxes	5,669,263	-	-	5,669,263	-	5,669,263
Intergovernmental	1,238,068	489,000	-	1,727,068	44,196,696	45,923,764
Gain (loss) on sale of fixed assets	64,452	354,470	-	418,922	-	418,922
Investment income	7,670,265	5,094,966	-	12,765,231	48,228,110	60,993,341
Investment expense	(5,327,243)	-	-	(5,327,243)	(38,943,543)	(44,270,786)
Miscellaneous	42,885	-	-	42,885	208,916	251,801
Total Nonoperating Revenues (Expenses)	<u>9,357,690</u>	<u>5,938,436</u>	<u>-</u>	<u>15,296,126</u>	<u>53,690,179</u>	<u>68,986,305</u>
Income before Operating Transfers	<u>25,669,300</u>	<u>10,673,069</u>	<u>2,466,335</u>	<u>38,808,704</u>	<u>98,646,929</u>	<u>137,455,633</u>
Operating Transfers In (Out):						
Operating transfers in	5,291,144	1,101,750	-	6,392,894	-	6,392,894
Operating transfers in - primary government	-	-	-	-	3,301,604	3,301,604
Operating transfers (out)	(20,277,782)	-	-	(20,277,782)	(223,026)	(20,500,808)
Operating transfers (out) - component unit	-	-	(601,194)	(601,194)	-	(601,194)
Total Operating Transfers In (Out)	<u>(14,986,638)</u>	<u>1,101,750</u>	<u>(601,194)</u>	<u>(14,486,082)</u>	<u>3,078,578</u>	<u>(11,407,504)</u>
Net Income/ Change in Retained Earnings	<u>10,682,662</u>	<u>11,774,819</u>	<u>1,865,141</u>	<u>24,322,622</u>	<u>101,725,507</u>	<u>126,048,129</u>
Other Changes in Fund Equity:						
Capital contributions	-	-	-	-	1,143,866	1,143,866
Depreciation on fixed assets acquired with contributed capital	-	-	-	-	223,914	223,914
Total Other Changes in Fund Equity	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,367,780</u>	<u>1,367,780</u>
Net Change in Fund Equity	<u>10,682,662</u>	<u>11,774,819</u>	<u>1,865,141</u>	<u>24,322,622</u>	<u>103,093,287</u>	<u>127,415,909</u>
Fund Equity - Beginning of Year, as restated	124,321,073	49,389,172	8,977,996	182,688,241	738,438,581	921,126,822
Equity Transfers In (Out)	<u>-</u>	<u>30,490</u>	<u>-</u>	<u>30,490</u>	<u>-</u>	<u>30,490</u>
Fund Equity - End of Year	<u>\$ 135,003,735</u>	<u>\$ 61,194,481</u>	<u>\$ 10,843,137</u>	<u>\$ 207,041,353</u>	<u>\$ 841,531,868</u>	<u>\$ 1,048,573,221</u>

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND
 COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY
 ALL PROPRIETARY FUND TYPES
 DISCRETELY PRESENTED COMPONENT UNITS
 FOR THE FISCAL YEAR ENDED JUNE 30, 1998
Exhibit A-6

	Montgomery County Public Schools	Montgomery County Revenue Authority	Housing Opportunities Commission of Montgomery County	Bethesda Urban Partnership, Incorporated	Totals
Operating Revenues:					
Sales - net	\$ 13,033,581	\$ 4,205,707	\$ -	\$ -	\$ 17,239,288
Charges for services	5,239,691	-	6,392,123	1,563,195	13,195,009
Rentals, concessions, leases, subsidies, and commitment fees	-	4,195,878	32,555,368	-	36,751,246
Contributions	116,814,928	-	6,865,636	28,900	123,709,464
Investment income	102,875,234	-	-	-	102,875,234
Other	-	-	-	953	953
Total Operating Revenues	<u>237,963,434</u>	<u>8,401,585</u>	<u>45,813,127</u>	<u>1,593,048</u>	<u>293,771,194</u>
Operating Expenses:					
Cost of goods sold	8,012,015	552,824	-	-	8,564,839
Personnel costs	19,253,565	1,774,587	15,462,972	558,140	37,049,264
Housing assistance payments	-	-	32,284,114	-	32,284,114
Postage	-	-	146,862	23,660	170,522
Self-insurance incurred and estimated claims	71,920,311	-	-	-	71,920,311
Insurance	28,837,751	51,958	636,106	49,823	29,575,638
Supplies and materials	1,756,098	340,299	206,865	537,094	2,840,356
Contractual services	4,456,805	139,971	2,381,591	69,460	7,047,827
Communications	-	32,098	379,443	14,078	425,619
Transportation	73,706	26,298	200,045	-	300,049
Public utility services	-	213,405	3,084,531	-	3,297,936
Rentals	-	-	150,807	66,080	216,887
Maintenance	-	139,693	8,720,399	242,050	9,102,142
Benefits	24,806,658	-	-	-	24,806,658
Lease activities	613,226	1,345,488	1,165,253	-	3,123,967
Depreciation and amortization	1,110,534	2,484,695	8,006,831	60,990	11,663,050
Miscellaneous	820,138	210,201	5,394,560	366	6,425,265
Total Operating Expenses	<u>161,660,807</u>	<u>7,311,517</u>	<u>78,220,379</u>	<u>1,621,741</u>	<u>248,814,444</u>
Operating Income (Loss)	<u>76,302,627</u>	<u>1,090,068</u>	<u>(32,407,252)</u>	<u>(28,693)</u>	<u>44,956,750</u>
Nonoperating Revenues (Expenses):					
Intergovernmental	11,728,015	-	32,468,681	-	44,196,696
Interest income	7,664,143	254,366	40,309,601	-	48,228,110
Interest expense	(53,610)	(361,230)	(38,528,703)	-	(38,943,543)
Miscellaneous	192,757	16,159	-	-	208,916
Total Nonoperating Revenues (Expenses)	<u>19,531,305</u>	<u>(90,705)</u>	<u>34,249,579</u>	<u>-</u>	<u>53,690,179</u>
Income (Loss) Before Operating Transfers	<u>95,833,932</u>	<u>999,363</u>	<u>1,842,327</u>	<u>(28,693)</u>	<u>98,646,929</u>
Operating Transfers In (Out):					
Operating transfers in - primary government	300,000	-	3,001,604	-	3,301,604
Operating transfers out	(223,026)	-	-	-	(223,026)
Total Operating Transfers In (Out)	<u>76,974</u>	<u>-</u>	<u>3,001,604</u>	<u>-</u>	<u>3,078,578</u>
Net Income (Loss)/Change in Retained Earnings	<u>95,910,906</u>	<u>999,363</u>	<u>4,843,931</u>	<u>(28,693)</u>	<u>101,725,507</u>
Other Changes in Fund Equity:					
Capital contributions	1,001,190	(49,147)	191,823	-	1,143,866
Depreciation on fixed assets acquired with contributed capital	-	223,914	-	-	223,914
Total Other Changes in Fund Equity	<u>1,001,190</u>	<u>174,767</u>	<u>191,823</u>	<u>-</u>	<u>1,367,780</u>
Net Change in Fund Equity	<u>96,912,096</u>	<u>1,174,130</u>	<u>5,035,754</u>	<u>(28,693)</u>	<u>103,093,287</u>
Fund Equity - Beginning of Year, as restated	<u>586,504,679</u>	<u>15,782,202</u>	<u>135,615,721</u>	<u>535,979</u>	<u>738,438,581</u>
Fund Equity - End of Year	<u>\$ 683,416,775</u>	<u>\$ 16,956,332</u>	<u>\$ 140,651,475</u>	<u>\$ 507,286</u>	<u>\$ 841,531,868</u>

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND
 COMBINED STATEMENT OF CASH FLOWS
 ALL PROPRIETARY FUND TYPES, SIMILAR TRUST FUNDS, AND
 DISCRETELY PRESENTED COMPONENT UNITS
 FOR THE FISCAL YEAR ENDED JUNE 30, 1998
Exhibit A-7

	Proprietary Fund Types	
	Enterprise	Internal Service
Cash Flows from Operating Activities:		
Operating income (loss)	\$ 16,311,610	\$ 4,734,633
Change in net assets	-	-
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Component unit pension trust fund operating income	-	-
Depreciation and amortization	6,800,879	4,991,576
Bond discount, interest amortization	-	-
Accretion of capital appreciation bonds	-	-
Net adjustment for interest and lease payments included in financing and lease activities	-	-
USDA commodities	-	-
Landfill closure costs	1,376,702	-
Interest on delinquent accounts	767	-
Investment income	-	-
Loss on disposal of fixed assets	-	-
Payments received on operating leases	-	-
Changes in assets and liabilities:		
(Increase) decrease in investments	-	-
(Increase) decrease in accounts receivable	(1,043,497)	20,251
(Increase) decrease in mortgages and notes receivable	-	-
(Increase) decrease in parking violations receivable	(242,146)	-
(Increase) decrease in due from other funds	-	(93,526)
(Increase) decrease in due from component units	(7,516)	170,533
(Increase) decrease in due from other governments	554,385	(59,286)
(Increase) decrease in inventory of supplies	(2,206,575)	(537,895)
(Increase) decrease in prepaids	(920)	(54,617)
(Increase) decrease in deposits	-	-
(Increase) decrease in other assets	(13,430)	-
Increase (decrease) in accounts/vouchers payable	(2,190,251)	(607,105)
Increase (decrease) in interest payable	(23)	-
Increase (decrease) in retainage payable	(432,355)	-
Increase (decrease) in accrued liabilities	1,780,746	244,188
Increase (decrease) in claims payable	-	(2,906,644)
Increase (decrease) in due to other funds	31,159	17,721
Increase (decrease) in due to primary government	-	-
Increase (decrease) in due to component units	241,694	-
Increase (decrease) in due to other governments	(194,937)	(49,752)
Increase (decrease) in deferred revenue	-	(5,529)
Net Cash Provided (Used) by Operating Activities	<u>20,766,292</u>	<u>5,864,548</u>

(Continued)

<u>Fiduciary Fund Type</u> Nonexpendable Trust	<u>Totals (Memorandum Only)</u> Primary Government	Component Units	<u>Totals (Memorandum Only)</u> Reporting Entity
\$ 2,466,335	\$ 23,512,578	\$ 44,956,750	\$ 68,469,328
-	-	146,638	146,638
-	-	(94,208,766)	(94,208,766)
-	11,792,455	11,724,933	23,517,388
-	-	925,304	925,304
-	-	401,727	401,727
-	-	(1,669,507)	(1,669,507)
-	-	1,063,854	1,063,854
-	1,376,702	-	1,376,702
-	767	-	767
(2,366,335)	(2,366,335)	-	(2,366,335)
-	-	110,249	110,249
-	-	2,658,669	2,658,669
28,922	28,922	-	28,922
-	(1,023,246)	(2,981,582)	(4,004,828)
-	-	(8,403,811)	(8,403,811)
-	(242,146)	-	(242,146)
-	(93,526)	(213,172)	(306,698)
-	163,017	-	163,017
-	495,099	-	495,099
-	(2,744,470)	(291,139)	(3,035,609)
-	(55,537)	(46,756)	(102,293)
-	-	(1,872,500)	(1,872,500)
-	(13,430)	1,578,681	1,565,251
-	(2,797,356)	(1,118,895)	(3,916,251)
-	(23)	(1,262,186)	(1,262,209)
-	(432,355)	-	(432,355)
-	2,024,934	157,745	2,182,679
-	(2,906,644)	690,329	(2,216,315)
-	48,880	509,095	557,975
-	-	2,897	2,897
(912)	240,782	-	240,782
-	(244,689)	-	(244,689)
1,101	(4,428)	(1,077,769)	(1,082,197)
<u>129,111</u>	<u>26,759,951</u>	<u>(48,219,212)</u>	<u>(21,459,261)</u>

MONTGOMERY COUNTY, MARYLAND
 COMBINED STATEMENT OF CASH FLOWS
 ALL PROPRIETARY FUND TYPES, SIMILAR TRUST FUNDS, AND
 DISCRETELY PRESENTED COMPONENT UNITS, CONCLUDED
 FOR THE FISCAL YEAR ENDED JUNE 30, 1998
Exhibit A-7

	Proprietary Fund Types	
	Enterprise	Internal Service
Cash Flows from Noncapital Financing Activities:		
Property tax collections	\$ 6,247,317	\$ -
Intergovernmental revenue	5,186,777	489,000
Proceeds from sale of bonds	-	-
Retirement of bonds	-	-
Bond issue costs net of early redemption reduction	-	-
Operating transfers in	4,402,434	1,101,750
Operating transfers in - primary government	-	-
Operating transfers (out)	(19,389,072)	-
Operating transfers (out) - component units	-	-
Net Cash Flows from Noncapital Financing Activities	<u>(3,552,544)</u>	<u>1,590,750</u>
Cash Flows from Capital and Related Financing Activities:		
Proceeds from capital financing/reimbursements	133,715	-
Contributed capital received	-	-
Proceeds from sale of fixed assets	176,200	375,966
Acquisition of fixed assets	(4,103,932)	(7,795,215)
Principal paid on general obligation bonds	(1,393,654)	-
Principal paid on revenue bonds	(4,515,000)	-
Principal paid on mortgages	-	-
Principal paid on equipment contracts and capital leases	-	-
Payments of landfill closure costs	(4,511,469)	-
Interest paid on bonds, leases, and equipment contracts	(5,321,866)	-
Net Cash Flows from Capital and Related Financing Activities	<u>(19,536,006)</u>	<u>(7,419,249)</u>
Cash Flows from Investing Activities:		
Proceeds from sale of investments	-	-
Purchase of investments	-	-
Interest income from pooled investments	7,320,781	5,072,837
Interest income from nonpooled investments	348,717	-
Net Cash Flows from Investing Activities	<u>7,669,498</u>	<u>5,072,837</u>
Net Increase (Decrease) in Cash and Cash Equivalents	5,347,240	5,108,886
Cash and Cash Equivalents - Beginning of Year, as restated	<u>102,157,557</u>	<u>82,388,305</u>
Cash and Cash Equivalents - End of Year	<u>\$ 107,504,797</u>	<u>\$ 87,497,191</u>

Noncash investing, capital, and financing activities:

The Motor Pool Internal Service Fund received capital contributions of \$30,490 in equipment from the General Fund and Grants Special Revenue Fund.

Notes to Financial Statements are an integral part of this statement.

Fiduciary Fund Type	Totals (Memorandum Only)	Component Units	Totals (Memorandum Only)
Nonexpendable Trust	Primary Government		Reporting Entity
\$ -	\$ 6,247,317	\$ -	\$ 6,247,317
-	5,675,777	43,657,094	49,332,871
-	-	104,189,295	104,189,295
-	-	(96,127,567)	(96,127,567)
-	-	(701,985)	(701,985)
-	5,504,184	-	5,504,184
-	-	3,301,604	3,301,604
-	(19,389,072)	(186,000)	(19,575,072)
(601,194)	(601,194)	-	(601,194)
<u>(601,194)</u>	<u>(2,562,988)</u>	<u>54,132,441</u>	<u>51,569,453</u>
-	133,715	51,149,540	51,283,255
-	-	2,294,934	2,294,934
-	552,166	40,833,252	41,385,418
-	(11,899,147)	(60,635,332)	(72,534,479)
-	(1,393,654)	-	(1,393,654)
-	(4,515,000)	(1,552,668)	(6,067,668)
-	-	(42,713,922)	(42,713,922)
-	-	(277,555)	(277,555)
-	(4,511,469)	-	(4,511,469)
-	(5,321,866)	(42,223,127)	(47,544,993)
<u>-</u>	<u>(26,955,255)</u>	<u>(53,124,878)</u>	<u>(80,080,133)</u>
-	-	192,838,643	192,838,643
-	-	(143,888,425)	(143,888,425)
705,157	13,098,775	36,936,293	50,035,068
-	348,717	3,836,849	4,185,566
<u>705,157</u>	<u>13,447,492</u>	<u>89,723,360</u>	<u>103,170,852</u>
233,074	10,689,200	42,511,711	53,200,911
<u>1,949,209</u>	<u>186,495,071</u>	<u>124,476,652</u>	<u>310,971,723</u>
<u>\$ 2,182,283</u>	<u>\$ 197,184,271</u>	<u>\$ 166,988,363</u>	<u>\$ 364,172,634</u>

MONTGOMERY COUNTY, MARYLAND
 COMBINING STATEMENT OF CASH FLOWS
 DISCRETELY PRESENTED COMPONENT UNITS
 FOR THE FISCAL YEAR ENDED JUNE 30, 1998
 Exhibit A-8

	Montgomery County Public Schools	Montgomery County Revenue Authority	Housing Opportunities Commission of Montgomery County	Bethesda Urban Partnership, Incorporated	Totals
Cash Flows from Operating Activities:					
Operating income (loss)	\$ 76,302,627	\$ 1,090,068	\$ (32,407,252)	\$ (28,693)	\$ 44,956,750
Change in net assets	146,638	-	-	-	146,638
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Pension Trust Fund operating income	(94,208,766)	-	-	-	(94,208,766)
Depreciation and amortization	1,110,534	2,546,578	8,006,831	60,990	11,724,933
Bond discount, interest amortization	-	-	925,304	-	925,304
Accretion of capital appreciation bonds	-	-	401,727	-	401,727
Net adjustment for interest and lease payments included in financing and lease activities	-	(1,669,507)	-	-	(1,669,507)
USDA commodities	1,063,854	-	-	-	1,063,854
(Gain) loss on disposal of fixed assets	123,573	(14,978)	-	1,654	110,249
Payments received on operating leases	-	2,658,669	-	-	2,658,669
Changes in assets and liabilities:					
(Increase) decrease in accounts receivable	1,200,399	7,472	(4,185,912)	(3,541)	(2,981,582)
(Increase) decrease in mortgages and notes receivable	-	-	(8,403,811)	-	(8,403,811)
(Increase) decrease in due from other funds	306,188	-	(519,360)	-	(213,172)
(Increase) decrease in inventory of supplies	(221,211)	(69,928)	-	-	(291,139)
(Increase) decrease in prepaids	-	(37,025)	-	(9,731)	(46,756)
(Increase) decrease in deposits	-	14,671	(1,887,171)	-	(1,872,500)
(Increase) decrease in other assets	-	-	1,578,681	-	1,578,681
Increase (decrease) in accounts/vouchers payable	(297,010)	(268,062)	(522,782)	(31,041)	(1,118,895)
Increase (decrease) in interest payable	(53,610)	-	(1,208,576)	-	(1,262,186)
Increase (decrease) in accrued liabilities	168,072	(20,195)	-	9,868	157,745
Increase (decrease) in claims payable	690,329	-	-	-	690,329
Increase (decrease) in due to other funds	509,095	-	-	-	509,095
Increase (decrease) in due to primary government	-	-	-	2,897	2,897
Increase (decrease) in deferred revenue	(320,370)	-	(757,399)	-	(1,077,769)
Net Cash Provided (Used) by Operating Activities	<u>(13,479,658)</u>	<u>4,237,763</u>	<u>(38,979,720)</u>	<u>2,403</u>	<u>(48,219,212)</u>
Cash Flows from Noncapital Financing Activities:					
Intergovernmental revenue	11,188,414	-	32,468,680	-	43,657,094
Proceeds from sale of bonds	-	-	104,189,295	-	104,189,295
Retirement of bonds	-	-	(96,127,567)	-	(96,127,567)
Bond issue costs net of early redemption reduction	-	-	(701,985)	-	(701,985)
Operating transfers in - primary government	300,000	-	3,001,604	-	3,301,604
Operating transfers (out)	(186,000)	-	-	-	(186,000)
Net Cash Flows from Noncapital Financing Activities	<u>11,302,414</u>	<u>-</u>	<u>42,830,027</u>	<u>-</u>	<u>54,132,441</u>
Cash Flows from Capital and Related Financing Activities:					
Proceeds from capital financing	950,215	-	50,199,325	-	51,149,540
Contributed capital received	-	1,603,613	691,321	-	2,294,934
Proceeds from sale of fixed assets	-	16,868	40,816,384	-	40,833,252
Acquisition of fixed assets	(962,668)	(3,567,790)	(55,988,933)	(115,941)	(60,635,332)
Principal paid on revenue bonds	-	(1,552,668)	-	-	(1,552,668)
Principal paid on mortgages	-	(47,079)	(42,666,843)	-	(42,713,922)
Principal paid on equipment contracts and capital leases	(275,675)	-	(1,880)	-	(277,555)
Interest paid on bonds, leases, and equipment contracts	-	(2,242,679)	(39,980,448)	-	(42,223,127)
Net Cash Flows from Capital and Related Financing Activities	<u>(288,128)</u>	<u>(5,789,735)</u>	<u>(46,931,074)</u>	<u>(115,941)</u>	<u>(53,124,878)</u>

(Continued)

MONTGOMERY COUNTY, MARYLAND
 COMBINING STATEMENT OF CASH FLOWS
 DISCRETELY PRESENTED COMPONENT UNITS, CONCLUDED
 FOR THE FISCAL YEAR ENDED JUNE 30, 1998
Exhibit A-8

	Montgomery County Public Schools	Montgomery County Revenue Authority	Housing Opportunities Commission of Montgomery County	Bethesda Urban Partnership, Incorporated	Totals
Cash Flows from Investing Activities:					
Proceeds from sale of investments	\$ 484,397	\$ -	\$ 192,354,246	\$ -	\$ 192,838,643
Net (purchase) disposition of investments	7,423,955	-	(151,312,380)	-	(143,888,425)
Interest income from pooled investments	-	-	36,936,293	-	36,936,293
Interest income from nonpooled investments	3,022,248	814,601	-	-	3,836,849
Net Cash Flows from Investing Activities	<u>10,930,600</u>	<u>814,601</u>	<u>77,978,159</u>	<u>-</u>	<u>89,723,360</u>
Net Increase (Decrease) in Cash and Cash Equivalents	8,465,228	(737,371)	34,897,392	(113,538)	42,511,711
Cash and Cash Equivalents - Beginning of Year	<u>16,092,428</u>	<u>13,702,830</u>	<u>94,287,464</u>	<u>393,930</u>	<u>124,476,652</u>
Cash and Cash Equivalents - End of Year	<u>\$ 24,557,656</u>	<u>\$ 12,965,459</u>	<u>\$ 129,184,856</u>	<u>\$ 280,392</u>	<u>\$ 166,988,363</u>

Noncash investing, capital, and financing activities:

The MCPS General Fund purchased furniture and equipment of \$1,001,190 for the Enterprise (Food Services) Fund during FY98, which was recorded by Food Services as contributed capital.

Reconciliation of cash and cash equivalents on
 "Combining Statement of Cash Flows - Discretely
 Presented Component Units" to "Combining Balance
 Sheet - Discretely Presented Component Units":

Cash and cash equivalents as noted above	\$ 24,557,656	\$ 12,965,459	\$ 129,184,856	\$ 280,392	\$ 166,988,363
Reconciling item - Cash and cash equivalents for governmental fund types and pension trust funds not presented on "Statement of Cash Flows."	<u>6,009,921</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,009,921</u>
Cash and cash equivalents on "Combining Balance Sheet - Discretely Presented Component Units"	<u>\$ 30,567,577</u>	<u>\$ 12,965,459</u>	<u>\$ 129,184,856</u>	<u>\$ 280,392</u>	<u>\$ 172,998,284</u>

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
HIGHER EDUCATION FUNDS - DISCRETELY PRESENTED COMPONENT UNIT
FOR THE FISCAL YEAR ENDED JUNE 30, 1998
Exhibit A-9

	<u>Current Funds</u>	
	<u>Unrestricted</u>	<u>Restricted</u>
Revenues:		
Educational and General:		
Student tuition and fees	\$ 34,925,573	\$ -
Federal, State, and private gifts, grants, and contributions	-	6,616,594
Governmental appropriations	15,929,170	1,961,800
Investment income	1,487,908	-
Other	413,224	-
Expended for plant facilities	-	-
Sales and services of auxiliary enterprises	6,831,252	-
State appropriations	<u>5,432,324</u>	<u>-</u>
Total Revenues	<u>65,019,451</u>	<u>8,578,394</u>
Expenditures:		
Educational and general	92,090,806	8,926,745
Auxiliary enterprises	6,392,799	-
State appropriations	5,432,324	-
Loan cancellations and collection costs	-	-
Disposal of plant facilities	-	-
Depreciation of plant assets	-	-
Capitalized plant expenditures	-	-
Noncapitalized plant expenditures	<u>-</u>	<u>-</u>
Total Expenditures	<u>103,915,929</u>	<u>8,926,745</u>
Excess of Revenues over (under) Expenditures	<u>(38,896,478)</u>	<u>(348,351)</u>
Other Financing Sources (Uses):		
Transfers In (Out):		
Primary government	41,678,440	-
Mandatory transfers	<u>(377,102)</u>	<u>348,351</u>
Total Other Financing Sources (Uses)	<u>41,301,338</u>	<u>348,351</u>
Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	2,404,860	-
Fund Balances - Beginning of Year	<u>11,635,373</u>	<u>-</u>
Fund Balances - End of Year	<u>\$ 14,040,233</u>	<u>\$ -</u>

Notes to Financial Statements are an integral part of this statement.

Loan Funds	Endowment & Similar	Plant Funds			Totals
		Unexpended	Renewal & Replacement	Investment in Plant	
\$ -	\$ -	\$ -	\$ 395,014	\$ -	\$ 35,320,587
-	-	-	-	-	6,616,594
86,993	-	100,457	-	-	18,078,420
43,205	30,092	-	142,689	-	1,703,894
5,114	-	-	-	-	418,338
-	-	-	-	10,637,127	10,637,127
-	-	-	-	-	6,831,252
-	-	-	-	-	5,432,324
<u>135,312</u>	<u>30,092</u>	<u>100,457</u>	<u>537,703</u>	<u>10,637,127</u>	<u>85,038,536</u>
-	-	-	-	-	101,017,551
-	-	-	-	-	6,392,799
-	-	-	-	-	5,432,324
133,516	-	-	-	-	133,516
-	-	-	-	238,294	238,294
-	-	-	-	5,717,701	5,717,701
-	-	6,236,377	-	-	6,236,377
-	-	583,865	-	-	583,865
<u>133,516</u>	<u>-</u>	<u>6,820,242</u>	<u>-</u>	<u>5,955,995</u>	<u>125,752,427</u>
<u>1,796</u>	<u>30,092</u>	<u>(6,719,785)</u>	<u>537,703</u>	<u>4,681,132</u>	<u>(40,713,891)</u>
-	-	3,319,457	-	-	44,997,897
<u>28,751</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>28,751</u>	<u>-</u>	<u>3,319,457</u>	<u>-</u>	<u>-</u>	<u>44,997,897</u>
30,547	30,092	(3,400,328)	537,703	4,681,132	4,284,006
<u>1,822,201</u>	<u>527,364</u>	<u>8,959,700</u>	<u>2,264,609</u>	<u>88,391,488</u>	<u>113,600,735</u>
<u>\$ 1,852,748</u>	<u>\$ 557,456</u>	<u>\$ 5,559,372</u>	<u>\$ 2,802,312</u>	<u>\$ 93,072,620</u>	<u>\$ 117,884,741</u>

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND TRANSFERS
HIGHER EDUCATION FUNDS - DISCRETELY PRESENTED COMPONENT UNIT
FOR THE FISCAL YEAR ENDED JUNE 30, 1998
Exhibit A-10

	Unrestricted	Restricted	Totals
Revenues:			
Educational and General:			
Student tuition and fees	\$ 34,925,573	\$ -	\$ 34,925,573
Governmental appropriations	15,929,170	1,961,800	17,890,970
Investment income	1,487,908	-	1,487,908
Other sources	413,224	-	413,224
Federal, State, and private gifts, grants, and contributions	-	6,616,594	6,616,594
Sales and services of auxiliary enterprises	6,831,252	-	6,831,252
State appropriations	5,432,324	-	5,432,324
Total Revenues	65,019,451	8,578,394	73,597,845
Expenditures:			
Educational and General:			
Instruction	43,756,735	1,192,802	44,949,537
Academic support	8,791,926	25,016	8,816,942
Student services	10,129,143	1,201,784	11,330,927
Operation and maintenance of physical plant	11,499,739	-	11,499,739
Institutional support	16,793,941	62	16,794,003
Scholarships and fellowships	1,119,322	6,507,081	7,626,403
Auxiliary enterprises	6,392,799	-	6,392,799
State appropriations	5,432,324	-	5,432,324
Total Expenditures	103,915,929	8,926,745	112,842,674
Transfers In (Out):			
Primary government	41,678,440	-	41,678,440
Mandatory transfers	(377,102)	348,351	(28,751)
Total Transfers In (Out)	41,301,338	348,351	41,649,689
Net Increase in Fund Balance	\$ 2,404,860	\$ -	\$ 2,404,860

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND
 COMBINING STATEMENT OF PLAN NET ASSETS -
 ALL PENSION TRUST FUNDS
 JUNE 30, 1998
Exhibit A-11

	Employees' Retirement System	Employees' Retirement Savings Plan	Totals
ASSETS			
Current Assets:			
Equity in pooled cash and investments	\$ 1,179,187	\$ 481,020	\$ 1,660,207
Investments	1,799,012,838	6,967,011	1,805,979,849
Receivables:			
Accounts	5,885	550	6,435
Other	-	92,209	92,209
Due from other funds	3,952,104	175,107	4,127,211
Due from component units	35,646	11,389	47,035
Due from other governments	30,140	110	30,250
Current portion of group annuity contract	5,214,958	-	5,214,958
Prepays	332	20	352
Total Current Assets	<u>1,809,431,090</u>	<u>7,727,416</u>	<u>1,817,158,506</u>
Group annuity contract	<u>72,228,576</u>	<u>-</u>	<u>72,228,576</u>
Fixed Assets, at Cost:			
Office equipment	169,746	-	169,746
Less: Accumulated depreciation	<u>169,746</u>	<u>-</u>	<u>169,746</u>
Net Fixed Assets	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets	<u>1,881,659,666</u>	<u>7,727,416</u>	<u>1,889,387,082</u>
LIABILITIES			
Current Liabilities:			
Accounts/vouchers payable:			
Refunds	232,290	-	232,290
Other	<u>130,419,368</u>	<u>55,650</u>	<u>130,475,018</u>
Total accounts/vouchers payable	130,651,658	55,650	130,707,308
Accrued liabilities	140,284	2,251	142,535
Due to other funds	364	226	590
Deferred revenue	<u>242,223</u>	<u>-</u>	<u>242,223</u>
Total Liabilities	<u>131,034,529</u>	<u>58,127</u>	<u>131,092,656</u>
Net Assets Held in Trust for Pension Benefits (A schedule of funding progress is presented in Note 17.)	<u>\$ 1,750,625,137</u>	<u>\$ 7,669,289</u>	<u>\$ 1,758,294,426</u>

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND
 COMBINED STATEMENT OF CHANGES IN NET ASSETS -
 PENSION AND INVESTMENT TRUST FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 1998
Exhibit A-12

	Employees' Retirement System	Employees' Retirement Savings Plan	Investment Trust	Totals (Memorandum Only)
Additions:				
Contributions:				
Employers	\$ 51,097,622	\$ 1,850,834	\$ -	\$ 52,948,456
Members	10,520,321	900,020	-	11,420,341
Share purchases	-	-	10,503,742	10,503,742
Total Contributions	<u>61,617,943</u>	<u>2,750,854</u>	<u>10,503,742</u>	<u>74,872,539</u>
Investment income	284,062,257	1,018,850	1,118,435	286,199,542
Less: investment expenses	13,088,953	102,415	-	13,191,368
Net Investment Income	<u>270,973,304</u>	<u>916,435</u>	<u>1,118,435</u>	<u>273,008,174</u>
Other income - forfeitures	-	190,038	-	190,038
Total Additions	<u>332,591,247</u>	<u>3,857,327</u>	<u>11,622,177</u>	<u>348,070,751</u>
Deductions:				
Benefits:				
Annuities:				
Retirees	46,448,135	-	-	46,448,135
Survivors	2,840,404	-	-	2,840,404
Disability	12,939,482	-	-	12,939,482
Amortization of group annuity contract	5,427,725	-	-	5,427,725
Total Benefits	<u>67,655,746</u>	<u>-</u>	<u>-</u>	<u>67,655,746</u>
Share redemptions	-	-	16,470,392	16,470,392
Member refunds	1,058,325	292,017	-	1,350,342
Administrative expenses	1,174,544	48,626	-	1,223,170
Depreciation	2,812	-	-	2,812
Total Deductions	<u>69,891,427</u>	<u>340,643</u>	<u>16,470,392</u>	<u>86,702,462</u>
Net Increase (Decrease)	262,699,820	3,516,684	(4,848,215)	261,368,289
Net Assets Held in Trust - Beginning of Year, as restated	<u>1,487,925,317</u>	<u>4,152,605</u>	<u>20,285,722</u>	<u>1,512,363,644</u>
Net Assets Held in Trust - End of Year	<u>\$ 1,750,625,137</u>	<u>\$ 7,669,289</u>	<u>\$ 15,437,507</u>	<u>\$ 1,773,731,933</u>

Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1998

NOTE 1	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
NOTE 2	LEGAL COMPLIANCE
NOTE 3	CASH AND INVESTMENTS
NOTE 4	RECEIVABLES
NOTE 5	INTERFUND RECEIVABLES AND PAYABLES
NOTE 6	DUE FROM/TO COMPONENT UNITS
NOTE 7	FIXED ASSETS
NOTE 8	LONG-TERM DEBT
NOTE 9	LEASE AND EQUIPMENT PURCHASE CONTRACT OBLIGATIONS
NOTE 10	SEGMENTS OF ENTERPRISE ACTIVITIES
NOTE 11	FUND EQUITY
NOTE 12	SIGNIFICANT COMMITMENTS AND CONTINGENCIES
NOTE 13	SUBSEQUENT EVENTS
NOTE 14	JOINT VENTURES
NOTE 15	DEFERRED COMPENSATION
NOTE 16	OTHER EMPLOYEE BENEFITS
NOTE 17	PENSION PLAN OBLIGATIONS
NOTE 18	YEAR 2000

Montgomery County, Maryland (County), is a charter government under the constitution and general laws of the State of Maryland. The charter provides for separate legislative and executive branches with the legislative responsibility vested in an elected nine-member county council and the executive responsibility vested in an elected county executive. Montgomery County provides its citizens with services in the areas of general government, public safety, public works and transportation, health and human services, education, culture and recreation, community development and housing, and environment.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Montgomery County conform to generally accepted accounting principles (GAAP) applicable to local government entities. The following is a summary of the significant policies:

A) Reporting Entity

As required by generally accepted accounting principles, these financial statements present the primary government and its component units, which are entities for which the primary government is considered financially accountable. The Montgomery County, Maryland, reporting entity is determined by criteria established by the Governmental Accounting Standards Board (GASB). The judgment to include or exclude activities is dependent on evaluation of the GASB criteria. Various departments and agencies governed directly by the County Executive and the County Council of Montgomery County are included in the reporting entity as the primary government and are referred to hereafter as the Primary Government. The component units (as discussed below) are included in the reporting entity because the Primary Government approves the budget requests, provides a significant amount of funding for each of these units, and/or appoints the governing boards.

Based on the evaluation of the fiscal activities of the Montgomery County Public Schools (MCPS), Montgomery Community College (MCC), the Montgomery County Revenue Authority (MCRA), the Housing Opportunities Commission of Montgomery County (HOC), and the Bethesda Urban Partnership, Incorporated (BUPI), all are included in the Montgomery County, Maryland, reporting entity (County) as discretely presented component units. The results of this analysis determined that Montgomery County Government (MCG) is the Primary Government. The results of the evaluation also concluded that the Maryland-National Capital Park and Planning Commission (M-NCPPC), Washington Suburban Sanitary Commission (WSSC), Washington Suburban Transit Commission (WSTC), Washington Metropolitan Area Transit Authority (WMATA), Metropolitan Washington Council of Governments (COG), and Northeast Maryland Waste Disposal Authority (NEMWDA) are considered joint ventures. Disclosure of the County's participation in these joint ventures is presented in Note 14.

The component unit columns in the combined general purpose financial statements include the financial data of the five discretely presented component units. Component unit columns are presented separately to emphasize that these units are legally separate from the Primary Government. Each discretely presented component unit has a June 30 fiscal year end.

MCPS is responsible for special education, elementary, middle and high schools within Montgomery County. Members of the Board of Education are elected by the voters. (One nonvoting student member is elected by secondary students.) However, MCPS is fiscally dependent upon the Primary Government because the Primary Government approves the budget, levies taxes to provide the majority of the fiscal support, and issues debt for construction of school facilities.

MCC provides educational services to County citizens by offering two-year associate degrees and a continuing education program. MCC is responsible for post secondary education within the government's

jurisdiction. The Montgomery County Board of Community College trustees is the governing authority. The State Governor appoints the trustees from a list of candidates supplied by a nominating committee. The nominating committee is controlled by the County Executive and the County Council. Therefore, essentially the Primary Government and the Governor of the State of Maryland must agree upon the trustees to serve on the College's Governing Board. In addition, the Montgomery County Council reviews and approves both the operating and capital budgets and budgetary amendments of MCC. The Primary Government contributes substantial funding for both the operating and capital budgets, as well as issues debt for the construction of college facilities.

MCRA is governed by a five member Board of Directors all appointed by the County Executive subject to the confirmation of the County Council. The County Council approves the capital budget of the MCRA. The MCRA approves its own operating budget. MCRA is an instrumentality of the Primary Government for the purpose of constructing, improving, and maintaining self-sustaining projects devoted to public use, good or welfare.

HOC is governed by seven commissioners who are appointed by the County Executive with the approval of the County Council. In addition, the County Council provides for a subsidy to the operating budget of the HOC and guarantees a relatively small portion of its debt (up to \$50,000,000). The HOC operating budget approval occurs on a project basis, with the County Council having authority to approve project budgets that include County funding. HOC presents its proposed budget to the Council for review and comment only, as required by Article 44A, Section 2 of the Annotated Code of Maryland. Even though there is a large dependence on the Federal Department of Housing and Urban Development (HUD), HOC has sufficient financial accountability to the Primary Government to be included as a component unit.

BUPI has its entire eleven member Board of Directors appointed by the County Executive with the approval of the County Council. The sole purpose of the BUPI, a not-for-profit corporation, is to execute service contracts for the benefit of one of the Primary Government's special taxing districts (Bethesda Urban District Special Revenue Fund). Substantially all of the funding of this corporation (with the exception of investment earnings on idle funds) is granted through the Primary Government's operating budget. The County Council approves the BUPI operating budget on an annual basis and is able to modify it in a manner similar to the way Primary Government agency budgets are modified.

Complete financial statements for each of the individual component units can be obtained at the entities' administrative offices listed below:

Montgomery County Public Schools 850 Hungerford Drive Rockville, MD 20850	Montgomery Community College 900 Hungerford Drive Rockville, MD 20850	Montgomery County Revenue Authority 211 Monroe Street Rockville, MD 20850
Housing Opportunities Commission of Montgomery County 10400 Detrick Avenue Kensington, MD 20895	Bethesda Urban Partnership, Inc. 7908 Woodmont Avenue Bethesda, MD 20814	

Complete financial statements for each of the individual joint ventures can be obtained at the entities' administrative offices listed below:

Maryland-National Capital Park and Planning Commission 6611 Kenilworth Avenue Riverdale, MD 20737	Washington Suburban Sanitary Commission 14501 Sweitzer Lane Laurel, MD 20707	Washington Suburban Transit Commission 8720 Georgia Avenue, Suite 904 Silver Spring, MD 20910
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Washington Metropolitan Area
Transit Authority
600 Fifth Street, NW
Washington, DC 20001

Metropolitan Washington Council
of Governments
777 N. Capitol Street, NE, #300
Washington, DC 20002

Northeast Maryland Waste
Disposal Authority
25 South Charles Street, Suite 2105
Baltimore, MD 21201-3330

B) Basis of Presentation - Fund Accounting

The accounts of the County are organized on the basis of funds or account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise assets, liabilities, fund balance/retained earnings, revenues, and expenditures/expenses. The account groups are concerned only with the measurement of financial position and do not measure results of operations. The various funds are summarized by type in the financial statements. Interfund eliminations have not been made in the aggregation of this data. The following fund types and account groups are used by the County:

PRIMARY GOVERNMENT

Governmental Funds:

General Fund - This fund is the general operating fund of the County. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - These funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally or administratively restricted to expenditures for specified purposes.

Debt Service Fund - This fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. Special assessment activities are accounted for in the Debt Service Fund for practical purposes because they differ significantly from traditional special assessment practices. The principal and interest collected annually on such assessments is used as a partial source of funding for debt service on all outstanding general obligation road and storm drainage bonds. The remaining debt service requirement is financed from current governmental revenues and transfers, generally from the General Fund.

Capital Projects Fund - This fund accounts for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

Proprietary Funds:

Enterprise Funds - These funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation/amortization and interest) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Internal Service Funds - These funds are used to account for the financing of goods or services provided by one department or agency to other departments or to other governmental units, on a cost-reimbursement basis.

Fiduciary Funds:

Trust and Agency Funds - These funds are used to account for assets held by Montgomery County in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. These include expendable trust, nonexpendable trust, pension trust, and agency funds. The pension trust and nonexpendable trust funds are accounted for and reported on the same basis as proprietary funds because capital maintenance is critical. Expendable trust and agency funds are accounted for and reported on the same basis as governmental funds.

Account Groups:

General Fixed Assets Account Group - This account group is established to account for all fixed assets of the County, other than those accounted for in the proprietary and fiduciary funds.

General Long-Term Obligations Account Group - This account group is established to account for all long-term obligations of the County except those accounted for in the proprietary and fiduciary funds. These long-term obligations include, but are not limited to, long-term bonded debt, long-term obligations relative to compensated absences, claims and judgments, and capital lease obligations.

COMPONENT UNITS

MCPS has a variety of governmental, proprietary, and fiduciary funds, which include capital projects, enterprise, internal service, and pension trust funds in addition to general fixed assets and general long-term obligations account groups. MCC accounts for its operations within a fund structure consistent with generally accepted accounting principles for colleges and universities which were promulgated by GASB, and has adopted the "AICPA College Guide Model." MCRA, HOC, and BUPI account for their fiscal operations on a proprietary basis of accounting.

C) Basis of Accounting

The modified accrual basis of accounting is followed by the governmental funds (General, Special Revenue, Debt Service, and Capital Projects) and expendable trust and agency funds. Governmental funds and expendable trust funds are accounted for on a current financial resources measurement focus. Only current assets and current liabilities are generally included on their balance sheets. Their operating statements present sources (revenues and other financing sources) and uses (expenditures and other financing uses) of "available financial resources" during a period. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual (i.e., both measurable and available). Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt which are recorded when due. Depreciation is not recorded.

In applying the susceptible to accrual concept to property taxes, Montgomery County, Maryland, defines "available" to mean received within thirty days after year-end. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended for the specific purpose or project before any amounts are paid to the County; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and are nearly irrevocable (i.e., revocable only for failure to comply with prescribed compliance requirements, e.g., equal employment opportunity). These monies are reflected as revenues at the time of receipt or earlier if they meet the available criterion.

Licenses and permits, income taxes (distributed by the State of Maryland), charges for services, fines and forfeitures, special street assessments, and miscellaneous revenues (except earnings on investments) are recorded as revenues when received in cash because they are generally not measurable until actually received. Also, the County has determined that the differences between recording on a cash versus an accrual basis are immaterial, except for income taxes. The final fiscal year income tax payment (which is normally received in August or September after the close of the fiscal year) is recorded as income taxes receivable with an offset to "deferred revenue." Revenue is not recognized in the current fiscal year since this final income tax payment is not measurable and available for use in the year. In the State of Maryland, the State has assumed the responsibility for the collection of all income taxes and for distributing these collections to the respective counties. The counties set their individual tax rates within limits provided by State law. However, collections and pursuit of delinquent taxes are the responsibility of the State. There is currently no timely reporting process by which the State notifies the counties of outstanding and delinquent taxes or liabilities related to pending refunds. Investment earnings are recorded as earned since they are measurable and available. Montgomery County bills all service receivables at the time services are rendered. An offsetting entry is made to "deferred revenue" in all situations in which revenues cannot be recognized at time of billing. Montgomery County does not operate any utilities. Water and sewer services are provided by WSSC through a joint venture relationship (See Note 14). Other common utilities are provided by regulated private industry.

The accrual basis of accounting is utilized by proprietary (enterprise and internal service), the pension trust, and nonexpendable trust funds. Proprietary, pension trust, and nonexpendable trust funds are accounted for on a flow of economic resources measurement focus. Under this method revenues are recorded when earned, expenses are recorded at the time liabilities are incurred, and allocations of interest and depreciation/amortization are recorded for the fiscal period.

GASB Statement 20 allows governments to choose not to implement, in proprietary fund types, pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989 (provided that this is applied on a consistent basis) or to continue to follow FASB standards for these fund types. The County has elected not to implement FASB pronouncements issued after that date for any proprietary fund type activity of the Primary Government.

D) Budgets

The "Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (non-GAAP Budgetary Basis) - General, Special Revenue, Debt Service, and Capital Projects Fund Types" is prepared on a basis consistent with the legally adopted budget. Under this method, encumbrances outstanding are charged to budgetary appropriations and considered expenditures of the current period.

Annual appropriated operating budgets are adopted for the General Fund, Special Revenue Funds (except the Forest Conservation Fund), the Debt Service Fund, Enterprise Funds, and the Liability and Property Coverage Self Insurance Internal Service Fund. The Capital Projects Fund budget is appropriated at the project level on an biennial basis. All unencumbered appropriations except for those related to Federal and State grants and those related to the Capital Projects Fund lapse at year-end.

Encumbrance accounting, under which purchase orders and contracts awarded (for which goods and services have not been received at year-end), and other commitments for the expenditure of funds are recorded in order to reserve that portion of the appropriation, is employed in the governmental and proprietary funds. In the governmental funds, encumbrances are reported as a reservation of fund balance because they do not constitute expenditures or liabilities. In the Proprietary Funds, encumbrances are eliminated for financial statement presentation since neither goods nor services have been provided.

E) Cash and Investments

Pooled Cash and Investments

The County sponsors an external investment pool. Participants in the pool include County funds, certain component unit agencies, and other legally separate entities. During the year, investments are stated at cost plus accrued interest and are adjusted for amortization of premiums and accretion of discounts. At year-end, investments in the pool are adjusted to fair value. See Note 3 for additional information.

Non-pooled Investments

Proprietary Fund Types

The Solid Waste Disposal Enterprise Fund investment in a nonparticipating investment contract is stated at cost plus accrued interest, which approximates fair value.

Fiduciary Fund Types

Agency Funds - Deferred compensation investments held by fiscal agents are stated at fair value.

Pension Trust - Pension Trust Fund investments for Montgomery County, Maryland are comprised of an actively managed pool of equities, bonds, real estate commingled funds, and short-term securities managed by professional investment advisory firms under contract with the Board of Investment Trustees. The Pension Trust Fund invests in derivatives, in accordance with the policy of the Board of Investment Trustees, which can include asset-backed securities, collateralized mortgage obligations, bond index future contracts, forward currency contracts, and floating rate securities (see Note 17). However, the policy prohibits the investment in derivatives for the purpose of leveraging its investment portfolio. The Pension Trust Fund is also not prohibited from participating in securities lending transactions (see Note 3). Investments are stated at fair market value.

Nonexpendable Trust - Investments of the Housing Opportunities Commission (HOC) Treasury Bonds Nonexpendable Trust Fund (a Primary Government fund) are stated at fair value.

MCPS - Investments include primarily Pension Trust Fund investments which consist of a group pension immediate participation contract carried at contract value and separate funds carried at fair market value. Equity and bond securities are valued at closing sales prices as reported on national or international securities exchanges at current exchange rates, or at closing bid prices as reported by investment dealers. The fair value of mortgages and real estate investments are based on independent appraisals.

F) Inventories

Montgomery County, Maryland - Inventories are valued at lower of cost (principally first-in, first-out) or market in the Enterprise Funds (Liquor) and consist of goods held for sale. Inventories valued at cost (principally moving-average) are carried in the Internal Service Funds (Motor Pool) and the governmental type funds. All inventories are maintained by perpetual records and adjusted by annual physical counts. Inventories in the governmental funds and motor pool fund consist of items held for consumption. The cost is recorded as an expenditure at the time individual items are withdrawn for use. In governmental funds, the reserve for inventory is equal to the amount of inventory to indicate that portion of fund balance which is not available for funding other expenditures.

MCPS - Inventories are valued at the lower of cost or market. Maintenance supplies, textbooks, and instructional materials are stated at cost determined by the average cost method. Transportation supplies, are stated at cost determined by the first-in, first-out method. Commodities received from the U.S. Department of Agriculture (USDA) are valued at fair market value and recorded as revenue when consumed. The cost of all inventories is recorded as an expenditure at the time the individual inventory items are consumed. The reserve for inventory in the MCPS General Fund is equal to the amount of inventory to indicate that portion of fund balance which is not available for funding other expenditures.

MCC - Inventories are valued at lower of cost (first-in, first-out) or market, and consist of supplies and bookstore items.

G) Prepays

Payments made to vendors for services that will benefit periods beyond the end of the fiscal year are recorded as prepaids.

H) Property Liens Acquired at Tax Sale

This asset account includes costs, such as delinquent taxes, interest, penalties, and advertising costs, paid at public auction which place the County in a position of primary lien-holder.

I) Fixed Assets

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, generally the Capital Projects Fund, and the related assets are reported in the General Fixed Assets Account Group. All purchased fixed assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable. Public domain ("infrastructure") general fixed assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems are capitalized at cost and included in the General Fixed Assets Account Group.

Assets in the General Fixed Assets Account Group are not depreciated. Depreciation of buildings, equipment, and vehicles in the Proprietary Fund Types of the primary government and component units is computed over the assets' estimated useful lives using the straight-line method.

Interest is capitalized on proprietary fund assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period.

J) Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources has been determined by the County to be immaterial and is therefore not reported as an expenditure and a liability of the governmental fund that will pay the leave. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial

resources are reported in the General Long-Term Obligations Account Group along with the corresponding employer's share of social security and medicare taxes. No expenditure is reported for these amounts until they are actually paid. Vested or accumulated vacation leave of proprietary funds is recorded as an expense and liability of those funds as benefits accrue to employees. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

K) Long-term Obligations

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion is reported in the General Long-Term Obligations Account Group. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

L) Fund Equity

Contributed capital is recorded in proprietary funds that have received capital grants or contributions from developers, customers, or other funds. Reserves represent those portions of fund equity which cannot be appropriated for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

MCPS - Net assets of component units represents the portion of MCPS's equity attributable to two component unit organizations, that are accounted for in accordance with generally accepted accounting principles for not-for-profit organizations.

M) Property Taxes

Real and personal property taxes are levied at rates enacted by the Montgomery County Council in the tax levy resolution on the assessed value as determined by the Maryland State Department of Assessments and Taxation. State law stipulates that the constant yield tax rate furnished by the Maryland State Department of Assessments and Taxation cannot be exceeded without public notice of the intent to exceed, and only after public hearings. The constant yield rate hearing was held and the general property tax rate was decreased to below the constant yield rate for FY98. The County Charter requires an affirmative vote of seven members of the Council to increase the real property tax rate to a level that will produce total revenues exceeding the total revenue produced by the tax on real property in the preceding year, plus 100 percent of any increase in the Consumer Price Index with exemptions for revenue from newly constructed, rezoned property and development district tax to fund capital improvement projects. The tax rate did not exceed the Charter limit for FY98. Property taxes are levied as of July 1 and become delinquent on October 1. Interest and penalty amounts are assessed annually at 20 percent on delinquent tax bills. Tax liens on real property are sold in random groups, utilizing a sealed bid process, on the second Monday in June, when taxes have remained overdue since the preceding October 1.

The State of Maryland, through the Closing Cost Reduction Act of 1995, has mandated that all counties must allow an option for the semi-annual payment of real property tax payments for owner-occupied residential property, as well as allow for the receipt of quarterly tax payments in the future. As a result of this mandate, certain property owners may elect to pay their property taxes on a semi-annual basis, by October 1, and January 31. This law permits the counties to charge an additional fee to cover the lost investment income and the administrative expenses associated with the program.

N) Memorandum Only - Total Columns

Total columns on the Combined Financial Statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in cash flows in conformity with generally accepted accounting principles. Such data is not comparable to a consolidation.

O) Statement of Cash Flows

For Statement of Cash Flows reporting purposes, the County has defined "cash equivalents" as short-term, highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, only investments with original maturities of three months or less meet this definition. The balance sheet classification for "cash and cash equivalents" in the Statement of Cash Flows includes the following: "Equity in pooled cash and investments," "Cash," "Cash with fiscal agents," "Investments - cash equivalents," "Restricted Equity in pooled cash and investments," "Restricted Cash," "Restricted Cash with fiscal agents," and "Restricted Investments - cash equivalents," for proprietary fund types (enterprise and internal service funds) and "Cash and cash equivalents - nonexpendable trust" for fiduciary fund types (nonexpendable trust fund).

P) Accounting Changes

In FY98 the County adopted GASB Statement No. 27, "Accounting for Pensions by State and Local Governmental Employers." The provisions of the new statement require reporting pension expenditures/expense and related liabilities and disclosing information about annual pension costs differently than previously required. These reporting changes are reflected in Note 17. No financial statement adjustment was required due to adoption of this statement, since the County did not have a net pension obligation as of July 1, 1997.

In FY98 the County also adopted GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools." Statement No. 31 establishes standards for the valuation of investments in participating interest-earning investment contracts, external investment pools, open-end mutual funds, debt securities and equity securities. The financial statements have been adjusted to reflect the calculations of fair value, where appropriate, as of July 1, 1997 (see Note 11). The County's external investment pool, previously reported as the Consolidated Investment Agency Fund, is now reported as the Investment Trust Fund. The component units' participation in the external investment pool, which was previously reported as Equity in Pooled Cash and Investments in the Consolidated Investment Agency Fund, with a related amount Due to Component Units, is now reflected as Equity in Pooled Cash and Investments by each participating component unit.

NOTE 2. LEGAL COMPLIANCE

A) **Budgetary Approval**

Pursuant to the Montgomery County Charter, the Capital Improvements Program, (CIP), is presented to the County Council by January 15 in even numbered years. An Amended CIP is presented to the County Council by January 15 in odd numbered years. The annual capital budget is presented to the County Council by January 15 of every year and the operating budget is presented to the County Council by March 15 of every year. The County Council holds public hearings and, pursuant to the County Charter, an annual appropriation resolution must be passed by the County Council by June 1. This resolution becomes effective for the one-year period beginning the immediately following July 1, and provides the spending authority at the department level in three major categories (personnel costs, operating and capital outlay) for the operations of the County Government with the unencumbered appropriation authority expiring the following June 30. Encumbrances are carried forward to the subsequent fiscal year and are reserved as part of the current fiscal year's fund balance. The capital projects budget is approved at the project level. The unencumbered appropriation of the CIP budget is reappropriated in the following year's budget unless specifically closed out by County Council action.

The County Executive has authority to transfer appropriations within departments up to 10 percent of the original appropriation. Transfers between departments are also limited to 10 percent of original appropriation and require County Council action. During the operating year the County Council may adopt a supplemental appropriation after holding a public hearing; however, supplemental appropriations enacted during the first half of the fiscal year must be either emergency in nature or to comply with, avail the County of, or put into effect the provisions of Federal, State or local legislation or regulation. During FY98, the County Council increased the operating budget through supplemental appropriations by \$36,972,264. In addition, supplemental appropriations increased the CIP budget by \$29,139,400.

B) **Budgetary Presentation**

The "Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (non-GAAP Budgetary Basis) - General, Special Revenue, Debt Service, and Capital Projects Fund Types" is prepared on a basis consistent with the legally adopted budget. Under this method, encumbrances outstanding are charged to budgetary appropriations and considered as expenditures of the current period. The "Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - All Governmental Fund Types, Expendable Trust Funds and Discretely Presented Component Unit" is prepared on a basis consistent with generally accepted accounting principles (GAAP) for local government entities where encumbrances are considered a reservation of fund balance and charged to expenditures in the period in which goods or services are received.

Adjustments necessary to reconcile the budgetary and GAAP statements are as follows:

Reconciliation of Revenues, Expenditures, and Other Financing Sources (Uses):

	Revenues	Expenditures and Encumbrances	Other Financing Sources (Uses)	Effect on Fund Balance
General Fund:				
As reported - budgetary basis	\$ 1,462,190,522	\$ 445,051,295	\$ (980,840,651)	\$ 36,298,576
Reconciling items:				
Cancellation of prior year encumbrances	(1,199,949)	-	-	(1,199,949)
Elimination of encumbrances outstanding	-	(17,704,489)	-	17,704,489
Equipment purchase financing	-	225,065	225,065	-
Unrealized gains (losses)	556,780	-	-	556,780
As reported - GAAP basis	<u>\$ 1,461,547,353</u>	<u>\$ 427,571,871</u>	<u>\$ (980,615,586)</u>	<u>\$ 53,359,896</u>
Special Revenue Funds:				
As reported - budgetary basis - all funds	\$ 273,870,735	\$ 254,698,127	\$ 1,745,254	\$ 20,917,862
Reconciling items:				
Cancellation of prior year encumbrances:				
Recreation	(60)	-	-	(60)
Mass Transit Facilities	(199,775)	-	-	(199,775)
Bethesda Urban District	(117)	-	-	(117)
Silver Spring Urban District	(57,519)	-	-	(57,519)
Landlord Tenant Affairs	(24,236)	-	-	(24,236)
Cable TV	(8,184)	-	-	(8,184)
Fire Tax District	(14,748)	-	-	(14,748)
Total	<u>(304,639)</u>	<u>-</u>	<u>-</u>	<u>(304,639)</u>
Less encumbrances outstanding:				
Recreation	-	(128,856)	-	128,856
Mass Transit Facilities	-	(819,402)	-	819,402
Bethesda Urban District	-	(65)	-	65
Silver Spring Urban District	-	(252,814)	-	252,814
Wheaton Urban District	-	(42,966)	-	42,966
Landlord Tenant Affairs	-	(12,752)	-	12,752
Common Ownership Communities	-	(3,102)	-	3,102
Cable TV	-	(322,347)	-	322,347
Fire Tax District	-	(2,616,864)	-	2,616,864
Drug Enforcement Forfeitures	-	(30,677)	-	30,677
Grants	(5,971,735)	(6,316,735)	-	345,000
Total	<u>(5,971,735)</u>	<u>(10,546,580)</u>	<u>-</u>	<u>4,574,845</u>
Forest Conservation Fund not budgeted	191	-	-	191
Change in mortgages receivable	(21,694)	77,789	4,478,618	4,379,135
Loan expenditures	(2,225,294)	(2,225,294)	-	-
Pass-through expenditures	2,464,478	2,485,363	20,885	-
As reported - GAAP basis	<u>\$ 267,812,042</u>	<u>\$ 244,489,405</u>	<u>\$ 6,244,757</u>	<u>\$ 29,567,394</u>
Debt Service Fund:				
As reported - budgetary basis	\$ 3,305,698	\$ 142,840,569	\$ 139,534,871	\$ -
Reconciling items:				
Underwriter's discount	-	180,031	180,031	-
Bond anticipation note repayment	-	115,000,000	115,000,000	-
As reported - GAAP basis	<u>\$ 3,305,698</u>	<u>\$ 258,020,600</u>	<u>\$ 254,714,902</u>	<u>\$ -</u>
Capital Projects Fund:				
As reported - budgetary basis	\$ 18,519,374	\$ 136,746,619	\$ 99,967,061	\$ (18,260,184)
Reconciling items:				
Elimination of encumbrances outstanding	-	(49,494,095)	-	49,494,095
Reclassification of mortgages and loans	-	(5,132,968)	(6,039,942)	(906,974)
Current receipt funding of M-NCPPC projects	-	1,565,634	1,565,634	-
Bond proceeds for projects budgeted by others	-	2,061,120	151,861,120	149,800,000
Transfers of bond proceeds to component units	-	-	(149,800,000)	(149,800,000)
Grants	(261,565)	(261,565)	-	-
As reported - GAAP basis	<u>\$ 18,257,809</u>	<u>\$ 85,484,745</u>	<u>\$ 97,553,873</u>	<u>\$ 30,326,937</u>

NOTE 3. CASH AND INVESTMENTS

A) Authorization and Balances

Montgomery County's total cash and investments as of June 30, 1998, totaled \$2,581,376,815 as presented below and in the combined balance sheet. These funds are held in several pools, various non-pooled investments, and cash funds. The following is a schedule of total cash and investments:

<u>Balance Sheet Amounts:</u>	<u>Primary Government</u>	<u>Component Units</u>	<u>Total Reporting Entity</u>
Equity in pooled cash and investments	\$ 571,183,932	\$ 18,724,135	\$ 589,908,067
Cash with fiscal agents	17,299,931	2,102,540	19,402,471
Cash	335,443	13,536,085	13,871,528
Cash and cash equivalents - nonexpendable trust	2,182,283	-	2,182,283
Investments - cash equivalents	-	26,216,797	26,216,797
Investments	1,815,120,699	699,496,459	2,514,617,158
Deferred compensation invested with fiscal agents	143,438,009	-	143,438,009
Restricted equity in pooled cash and investments	27,491,458	1,681,565	29,173,023
Restricted cash	-	2,645,118	2,645,118
Restricted cash with fiscal agents	-	513,492	513,492
Restricted investments - cash equivalents	-	123,815,894	123,815,894
Restricted investments	<u>4,325,060</u>	<u>115,020,635</u>	<u>119,345,695</u>
Total	<u>\$ 2,581,376,815</u>	<u>\$ 1,003,752,720</u>	<u>\$ 3,585,129,535</u>
 <u>Deposit and Investment Summary:</u>			
Deposits: Summary total as below	\$ 10,902,027	\$ 6,178,744	\$ 17,080,771
Investments: Summary total as below	2,552,912,746	878,888,807	3,431,801,553
Cash on hand, fiscal agents, safe deposit escrow	<u>17,562,042</u>	<u>118,685,169</u>	<u>136,247,211</u>
Total	<u>\$ 2,581,376,815</u>	<u>\$ 1,003,752,720</u>	<u>\$ 3,585,129,535</u>

Primary Government

External Investment Pool –The County, through its external investment pool, maintains an active and sophisticated cash and investment management program. The primary objectives of the program are the preservation of capital, providing liquidity to meet financial obligations, and maximization of the investment yield on short-term working capital. Working capital is managed pursuant to the Annotated Code of Maryland, the County Code, and the County's short-term investment policies as approved by the County Council. The County is authorized to invest in: a) obligations for which the United States has pledged its full faith and credit for the payment of principal and interest, b) obligations that a federal agency or instrumentality issues in accordance with an Act of Congress, or c) repurchase agreements that any of the foregoing listed obligations secure. Cited statutes also authorize investments in bankers acceptances, secured certificates of deposit issued by Maryland banks, commercial paper of the highest investment grade and money market funds whose portfolio is operated consistent with the Securities and Exchange Commission (SEC) Rule 2a-7. The County requires that these money market funds also be of the highest investment grade. The average maturity of the County's pool portfolio is generally less than six months.

These same statutes require that securities underlying certificates of deposit and repurchase agreements have a market value of at least 102 percent of the cost of the investment. The collateral underlying all repurchase agreements is held by a third party custodian. Appropriate sections of these cited statutes also

require that funds on deposit in financial institutions be fully secured. The form of such security shall be in compliance with State statute and the County Code. Collateral pledged for protection of these banking deposits is held in the County's name in a third party depository or in the trust department of pledging banks.

Deposits throughout the fiscal year were fully insured or collateralized. There were no unusual variations in the mix or volume of the investment portfolio throughout the year. The County was in compliance with all applicable investment statutes throughout the fiscal year.

The County's external investment pool is not subject to regulatory oversight by the SEC. However, the pool is subject to State review through semi-annual reporting, and is subject to oversight by the County's investment committee.

Participants in the pool include County funds, certain component unit agencies, and other legally separate entities. The equity position of each fund and component unit is reported as an asset by the funds and component units. The external portion of the pool (i.e., participation by legally separate entities) is reported as the Investment Trust Fund in the accompanying financial statements. Participants' shares sold and redeemed during the year are based on actual cost; participants' shares are then adjusted to fair value at year-end. The County has not provided or obtained any legally binding guarantees during the year to support the value of shares.

During the year, investments in the pool are stated at cost plus accrued interest and are adjusted for amortization of premiums and accretion of discounts. Investments are marked-to-market at year-end, since the pool does not meet the strict definition of "2a-7 like." The fair value of U.S. Government securities and mutual funds are determined using quoted market prices. Fair value of investments in certificates of deposit, commercial paper, banker's acceptances, and repurchase agreements are estimated based on consideration of composite quoted market prices, and investments with comparable collateral or credit quality, as appropriate. For interest-bearing investments, market value quotations did not include accrued interest. However, for reporting purposes, immaterial amounts of accrued interest have been classified with the fair value of investments in the accompanying financial statements.

Investment income during the year, and the adjustment to fair value at year-end, is allocated to pool participants based upon their average equity in the pool. The adjustment to fair value for FY98 related to all County funds (exclusive of legally separate entities' accounts reflected in the Investment Trust Fund) has been recorded in the General Fund, since this amount is not material.

External investment pool amounts, included in the schedule above, are as follows:

	Primary <u>Government</u>	Component <u>Units</u>	Total <u>Reporting Entity</u>
Balance Sheet Amounts:			
Equity in pooled cash and investments	\$ 571,183,932	\$ 5,913,986	\$ 577,097,918
Cash and cash equivalents - nonexpendable trust	2,182,283	-	2,182,283
Restricted equity in pooled cash and investments	<u>27,491,458</u>	<u>-</u>	<u>27,491,458</u>
Total	<u>\$ 600,857,673</u>	<u>\$ 5,913,986</u>	<u>\$ 606,771,659</u>
Deposit and Investment Summary:			
Deposits: Summary total as below	\$ 10,828,695	\$ -	\$ 10,828,695
Investments: Summary total as below	<u>590,028,978</u>	<u>5,913,986</u>	<u>595,942,964</u>
Total	<u>\$ 600,857,673</u>	<u>\$ 5,913,986</u>	<u>\$ 606,771,659</u>

A summary of investments is as follows:

<u>Investment Type:</u>	<u>Fair</u>		<u>Maturity</u>	<u>Interest Rate</u>
	<u>Value</u>	<u>Principal</u>	<u>Range</u>	<u>Range</u>
Repurchase agreements	\$ 65,011,285	\$ 65,000,000	07/98	6.25%
U.S. Government securities	261,513,132	258,351,846	07/98 - 05/99	5.37 - 5.82%
Commercial paper	30,302,211	30,093,225	07/98 - 09/98	5.67 - 5.76%
Bankers' acceptances	171,986,147	169,821,175	07/98 - 12/98	5.54 - 5.89%
Mutual funds	<u>67,130,189</u>	<u>67,130,189</u>	N/A	5.44 - 5.58%
Total	<u>\$ 595,942,964</u>	<u>\$ 590,396,435</u>		

The County does not participate, voluntarily or involuntarily, in any other external investment pool, except for the pension trust securities lending transactions as described below.

Securities Lending Transactions – Montgomery County Code and Maryland State statutes do not prohibit the Employees' Retirement System of Montgomery County, Maryland (MCERS) from participating in securities lending transactions, and MCERS has, via a Securities Lending Authorization Agreement, authorized State Street Bank and Trust Company (State Street) to lend its securities to broker-dealers and banks pursuant to a form of loan agreement.

During FY98, State Street lent, at the direction of Board of Investment Trustees, MCERS' securities and received cash (both United States and foreign currency), United States government securities, sovereign debt of foreign countries and irrevocable bank letters of credit as collateral. State Street did not have the ability to pledge or sell those collateral securities delivered unless there was a borrower default. Borrowers were required to deliver collateral for each loan in amounts equal to not less than 100% of the market value of the loaned securities. MCERS did not impose any restrictions during FY98 on the amount of the loans that State Street made on its behalf. State Street does not provide loss indemnification to MCERS. There were no failures by any borrowers to return loaned securities or pay distributions thereon during FY98. Moreover, there were no losses during FY98 resulting from a default of the borrowers or State Street. During FY98, MCERS and the borrowers maintained the right to terminate all securities lending transactions on demand.

The cash collateral received on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment pool. Because the pool does not meet the requirements of Rule 2a-7, investments are reported at fair value, based upon quotations provided by a recognized pricing service. The pool is not registered with the SEC. However, State Street, and therefore the pool it sponsors, is subject to the oversight of the Federal Reserve Board and the Massachusetts Commissioner of Banks. The fair value of the MCERS position in the pool is not the same as the value of the pool's shares.

The average duration of such investment pool as of June 30, 1998, was 64 days and the average weighted maturity was 428 days. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. On June 30, 1998, MCERS had no credit risk exposure to borrowers. The collateral held and the market value of securities on loan for MCERS as of June 30, 1998, were \$135,435,266 and \$131,262,059, respectively.

Component Units

The Annotated Code of Maryland requires that MCPS funds on deposit with a financial institution be fully secured by deposit insurance, surety bonds, obligations of the United States or its agencies, obligations of the State of Maryland or any of its agencies, or obligations of a county, other governmental authority or

municipal corporation in the State of Maryland. Deposits throughout the year were fully insured or collateralized. The Annotated Code of Maryland authorizes MCPS to invest in obligations for which the United States has pledged its faith and credit for the payment of principal and interest, in obligations issued by a federal agency in accordance with an Act of Congress, in repurchase agreements collateralized at not less than 102 percent of the principal amount by obligations of the United States and its agencies, in money market mutual funds operated in accordance with SEC Rule 2a-7, or in any investment portfolio created under the Maryland Local Government Investment Pool. MCPS was in compliance with the above mentioned investment statutes throughout the fiscal year.

The Annotated Code of Maryland and MCC's adopted investment policy authorize MCC to invest surplus cash in U.S. Treasury obligations, U.S. government agencies and instrumentalities securities, collateralized certificates of deposit, repurchase agreements, the Maryland Local Government Investment Pool, and bankers' acceptances. In the opinion of MCC management, MCC is in compliance with all provisions of the Annotated Code of Maryland and MCC's investment policy.

B) Credit and Market Risk

1) Deposit Collateral:

	<u>Carrying Amount</u>	<u>Bank Balance</u>	<u>Total Collateral</u>
Primary Government:			
Montgomery County	<u>\$10,902,027</u>	<u>\$ 20,069,059</u>	<u>\$ 20,069,059</u>
Component Units:			
MCPS	(5,567,412)	4,130,371	4,130,371
MCC	4,191,421	4,368,247	4,368,247
MCRA	1,665,350	1,554,553	1,554,553
HOC	5,608,993	6,606,809	6,606,809
BUPI	<u>280,392</u>	<u>325,672</u>	<u>325,672</u>
Total Component Units	<u>6,178,744</u>	<u>16,985,652</u>	<u>16,985,652</u>
Total Reporting Entity	<u>\$17,080,771</u>	<u>\$ 37,054,711</u>	<u>\$ 37,054,711</u>

External investment pool deposits, included in the amounts reported above, are as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>	<u>Total Collateral</u>
External Investment Pool	<u>\$10,828,695</u>	<u>\$19,995,727</u>	<u>\$19,995,727</u>

Deposits include bank accounts and nonnegotiable certificates of deposit. Negative carrying amounts represent the excess of vendor checks written over amounts in the bank. All deposits were fully collateralized at year-end. The County's bank balances, and therefore the external investment pool's balances, were insured or collateralized with securities held by the County's agent in the County's name. Of the component unit bank balances, \$15,749,819 was insured or collateralized with securities held by the Component Units' agents in the Component Units' names, and \$1,235,833 was covered by collateral held by the pledging financial institution's trust department or agent in the component units' names.

2) Investments by Category of Risk:

<u>Primary Government:</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Carving Amount</u>	<u>Market Value</u>
U.S. Government securities	\$ 9,140,850	\$ -	\$ -	\$ 9,140,850	\$ 9,140,850
Investment agreement	4,325,060	-	-	4,325,060	4,325,060
	<u>\$ 13,465,910</u>	<u>\$ -</u>	<u>\$ -</u>	13,465,910	13,465,910
Deferred compensation invested with fiscal agents				143,438,009	143,438,009
Pooled investments held in:					
Montgomery County external investment pool *				590,028,978	590,028,978
Pension investment funds				1,805,979,849	1,805,979,849
Total Investments				<u>\$ 2,552,912,746</u>	<u>\$ 2,552,912,746</u>

<u>Component Units:</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Carving Amount</u>	<u>Market Value</u>
Repurchase agreements	\$ 45,906,331	\$ -	\$ 2,716,118	\$ 48,622,449	\$ 48,622,449
U.S. Government securities	78,008,523	22,544,156	8,583,991	109,136,670	109,185,390
Bankers' acceptances	-	7,874,681	-	7,874,681	7,915,509
Corporate stocks and bonds	-	3,936,171	-	3,936,171	3,936,171
Investment agreement	-	728,868	-	728,868	728,868
	<u>\$ 123,914,854</u>	<u>\$ 35,083,876</u>	<u>\$ 11,300,109</u>	170,298,839	170,388,387

Pooled investments held in:					
Montgomery County external investment pool *				5,913,986	5,913,986
Maryland local government investment pool				20,141,093	20,141,093
Mutual funds				39,466,896	39,466,896
Pension investment funds				643,067,993	643,067,993
Total Investments				<u>\$ 878,888,807</u>	<u>\$ 878,978,355</u>

* The Primary Government and Component Units' participation in the Montgomery County external investment pool is presented as pooled investments and not categorized by credit risk because they are not evidenced by securities that exist in physical or book entry form. The County, as sponsor of the pool, has disclosed the risk categorization of external pool investments below.

<u>External Investment Pool:</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Carving Amount</u>	<u>Market Value</u>
Repurchase agreements	\$ 65,011,285	\$ -	\$ -	\$ 65,011,285	\$ 65,011,285
U.S. Government securities	261,513,132	-	-	261,513,132	261,513,132
Commercial paper	30,302,211	-	-	30,302,211	30,302,211
Bankers' acceptances	171,986,147	-	-	171,986,147	171,986,147
	<u>\$ 528,812,775</u>	<u>\$ -</u>	<u>\$ -</u>	528,812,775	528,812,775
Pooled investments held in mutual funds				67,130,189	67,130,189
Total Investments				<u>\$ 595,942,964</u>	<u>\$ 595,942,964</u>

Investments are categorized to give an indication of the level of risk assumed by the entity at year-end. Category "1" includes investment securities that are insured or registered or held by the County (including its component units) or its agent in the County's name. Category "2" includes uninsured and unregistered investment securities held by the counterparty's trust department or agent in the County's name. Category "3" includes uninsured and unregistered investment securities held by a counterparty, or by its trust department or agent but not in the County's name. Investment amounts included as Category "3" did not significantly fluctuate during the fiscal year. There were no unusual variations in form or amounts of investments or deposits, including insurance and location of collateral, throughout the fiscal year.

3) Cash on hand, with fiscal agents, and in safe deposit escrow:

	Primary <u>Government</u>	Component <u>Units</u>	Total <u>Reporting Entity</u>
Cash with fiscal agents	\$17,299,931	\$118,631,690	\$ 135,931,621
Petty cash/safe deposit escrow	262,111	53,479	315,590
	<u>\$17,562,042</u>	<u>\$118,685,169</u>	<u>\$ 136,247,211</u>

Primary Government cash with fiscal agents is generally held for approximately one day in U.S. Government obligations that are not in the County's name (Category 3). Component Units cash with fiscal agents is held in U.S. Government securities that are insured or registered or held by the Component Units or its agents in the Component Units' names (Category 1).

C) External Investment Pool Condensed Financial Statements

Statement of Net Assets
Year Ended June 30, 1998

Assets	
Investment in securities, at fair value	\$ 593,853,436
Cash	10,828,695
Accrued interest receivable	<u>2,089,528</u>
Total Assets	606,771,659
Liabilities	
Net assets	<u>\$ 606,771,659</u>
Net assets consist of:	
Internal participants' units outstanding (\$1.00 par)	\$ 591,334,152
External participants' units outstanding (\$1.00 par)	<u>15,437,507</u>
Net assets	<u>\$ 606,771,659</u>
Participants net asset value, offering price and redemption price per share (\$606,771,659/606,771,659 units)	<u>\$ 1.00</u>

Statement of Changes in Net Assets
Year Ended June 30, 1998

Investment Income *	\$ 38,941,437
Distributions to participants:	
Distributions paid and payable	(1,512,039)
Share transactions at net asset value of \$1.00 per share:	
Purchase of units	\$ 6,558,946,211
Redemption of units	<u>(6,405,250,621)</u>
Net increase in net assets and shares resulting from share transactions	<u>153,695,590</u>
Total increase in net assets	191,124,988
Net assets, July 1, 1997	<u>415,646,671</u>
Net assets, June 30, 1998	<u>\$ 606,771,659</u>

* The pool has no expenses.

NOTE 4. RECEIVABLES

A) Accounts Receivable

The County calculates its allowance for doubtful accounts based on historical collection data and, in some cases, specific account analysis. The total allowance amounted to \$4,049,919 at June 30, 1998. This amount is comprised of allowances in the Liquor Enterprise Fund (\$147,037 - claims and returned checks), the Solid Waste Disposal Enterprise Fund (\$3,094,300 - charges for services), and the Parking Lot District Enterprise Funds (\$808,582 - parking fines).

B) Due From Other Governments

The total amount due from other governments at June 30, 1998, was \$45,062,303. A summary of amounts due by fund type and source of receivable is listed below:

	General	Special Revenue	Capital Projects	Enterprise	Internal Service	Fiduciary	Total
Federal government	\$ 32,316	\$ 2,635,523	\$ 119,120	\$ 2,455	\$ -	\$ 1,665	\$ 2,791,079
State of Maryland	16,058,639	13,827,167	6,759,233	6,700	532,408	1,454,876	38,639,023
Other	1,471,230	25,019	1,600,765	521,063	14,014	110	3,632,201
Total	<u>\$ 17,562,185</u>	<u>\$ 16,487,709</u>	<u>\$ 8,479,118</u>	<u>\$ 530,218</u>	<u>\$ 546,422</u>	<u>\$ 1,456,651</u>	<u>\$ 45,062,303</u>

NOTE 5. INTERFUND RECEIVABLES AND PAYABLES

The balances at June 30, 1998, of interfund receivables and payables were:

	Interfund Receivable	Interfund Payable
General Fund	\$ 61,739,418	\$ 4,303,655
Special Revenue Funds:		
Recreation	-	130,022
Bethesda Urban District	-	93
Silver Spring Urban District	-	2,689
Wheaton Urban District	-	1,014
Storm Drainage Maintenance	-	13,548
Mass Transit Facilities	818,189	4,311,655
Landlord Tenant Affairs	-	24,246
Common Ownership Communities	-	1,205
Cable TV	-	6,949
Fire Tax District	242,913	1,169,422
Grants	-	207,418
Debt Service	-	17,299,931
Capital Projects	-	41,606,845
Enterprise Funds:		
Liquor	-	167,200
Solid Waste Disposal	-	57,073
Solid Waste Collection	-	8,654
Permitting Services	-	132,373
Community Use of Educational Facilities	-	9,891
Parking Activities	-	35,402
Internal Service Funds:		
Motor Pool	-	118,618
Central Duplicating	-	21,202
Liability and Property Coverage Self Insurance	-	19,798
Employee Health Benefits Self Insurance	2,722,367	605
Pension Trust Funds:		
Employees' Retirement Savings Plan	175,107	226
Employees' Retirement System	3,952,104	364
Total	<u>\$ 69,650,098</u>	<u>\$ 69,650,098</u>

NOTE 6. DUE FROM/TO COMPONENT UNITS

The balances at June 30, 1998, were:

Due from Component Units / Due to Primary Government:

Due from Component Units:	MCPS	MCC	MCRA	HOC	BUPI	Total
Due to Primary Government:						
General	\$ -	\$ 200,000	\$ -	\$ 164,144	\$ -	\$ 364,144
Housing Initiative Special Revenue	-	-	-	10,298,299	-	10,298,299
Capital Projects	-	-	-	8,222,208	-	8,222,208
Solid Waste Disposal Enterprise	69,133	1,248	-	878	2,026	73,285
Motor Pool Internal Service	12,134	932	58	15,275	-	28,399
Central Duplicating Internal Service	-	-	219	5,084	-	5,303
Employee Health Benefits Self Insurance Internal Service	-	-	36,840	232,361	-	269,201
Employees' Retirement System Pension Trust	-	-	10,589	25,057	-	35,646
Employees' Retirement Savings Plan Pension Trust	-	-	2,539	8,850	-	11,389
	<u>\$ 81,267</u>	<u>\$ 202,180</u>	<u>\$ 50,245</u>	<u>\$ 18,972,156</u>	<u>\$ 2,026</u>	<u>\$ 19,307,874</u>

Due to Component Units / Due from Primary Government:

Due to Component Units:	MCPS	MCC	MCRA	HOC	BUPI	Total
Due from Primary Government:						
General	\$ 35,651,435	\$ -	\$ 8,190	\$ -	\$ -	\$ 35,659,625
Grants Special Revenue	2,432,285	-	-	259,002	-	2,691,287
Community Use of Educational Facilities Enterprise	249,170	-	-	-	-	249,170
MCPS Capital Agency	48,533,393	-	-	-	-	48,533,393
MCC Capital Agency	-	5,423,364	-	-	-	5,423,364
HOC Nonexpendable Trust	-	-	-	93,564	-	93,564
	<u>\$ 86,866,283</u>	<u>\$ 5,423,364</u>	<u>\$ 8,190</u>	<u>\$ 352,566</u>	<u>\$ -</u>	92,650,403
Totals						
Reconciling Item *						<u>(1,390,024)</u>
Total Due from Primary Government per Combined Balance Sheet						<u>\$ 91,260,379</u>

* Represents Higher Education Fund (MCC) recognition of revenue and receivable from the County prior to the County's recognition of expenditures, due to different basis of accounting (see note 11).

The \$10,298,299 due from HOC to the Housing Initiative Special Revenue Fund represents mortgage loans, which are generally repayable based on project cash flows, specified future dates, or sales of the respective properties. Included in this amount is a loan of \$2,349,725, whose payments are based on cash flows. Terms of the note stipulate that the balance of the note will be forgiven at the termination of the ground lease in December 2035. To date the project has not generated cash flows. This loan is offset by deferred revenue. Fund balance has been reserved for the remaining loans.

BUPI charges for services include \$1,434,595 earned under contracts with the County.

NOTE 7. FIXED ASSETS

PRIMARY GOVERNMENT

A) Changes In General Fixed Assets Account Group

A summary of changes in the General Fixed Assets Account Group during the fiscal year is as follows:

	Balance <u>July 1, 1997</u>	<u>Additions</u>	<u>Transfers</u>	<u>Disposals</u>	Balance <u>June 30, 1998</u>
Land	\$ 273,789,081 *	\$ 16,422,052	\$ -	\$ (1,010)	\$ 290,210,123
Buildings and improvements	420,428,752 *	1,753,122	39,857,312	(995,347)	461,043,839
Furniture, fixtures, equipment, and machinery	80,613,897 *	1,197,242	3,699,242	(978,841)	84,531,540
Other assets	597,052,765	-	107,365,283	(6,665)	704,411,383
Construction in progress	<u>183,291,376</u>	<u>85,029,664</u>	<u>(150,921,837)</u>	<u>-</u>	<u>117,399,203</u>
Total	<u>\$ 1,555,175,871</u>	<u>\$ 104,402,080</u>	<u>\$ -</u>	<u>\$ (1,981,863)</u>	<u>\$ 1,657,596,088</u>

	Commitments <u>At June 30, 1998</u>
General projects	\$ 24,318,766
Community development and housing	653,129
Road and storm drainage	24,697,046
Mass transit	<u>86,719</u>
Total	<u>\$ 49,755,660</u>

* As restated (see Note 11)

B) Summary of Proprietary and Fiduciary Fund Fixed Assets

Property, plant, and equipment included within the proprietary and fiduciary funds are stated at cost, which includes capitalized interest on certain proprietary fund fixed assets. Generally, depreciation is expensed over the estimated useful lives using the straight-line method. The estimated useful lives (in years) are as follows:

<u>Description</u>	<u>Proprietary Funds</u>	<u>Fiduciary Funds</u>
Buildings and structures	20-40	-
Improvements other than buildings	3-40	-
Parking garages	40	-
Machinery and equipment	3-20	-
Office furniture and fixtures	3-15	3-15
Automobiles and trucks	2-15	-

A schedule of related fixed assets at June 30, 1998, follows:

	<u>Proprietary Funds</u>		<u>Fiduciary Fund</u>
	<u>Enterprise</u>	Internal	Pension
			<u>Service</u>
Land, improved and unimproved	\$ 44,688,945	\$ 71,852	\$ -
Buildings	119,067,924	315,732	-
Furniture, fixtures, equipment, and machinery	12,830,773	54,375,809	169,746
Other fixed assets	<u>88,356,274</u>	<u>-</u>	<u>-</u>
Subtotal	264,943,916	54,763,393	169,746
Less accumulated depreciation and amortization	<u>(122,190,990)</u>	<u>(34,800,755)</u>	<u>(169,746)</u>
Total Fixed Assets	<u>\$ 142,752,926</u>	<u>\$ 19,962,638</u>	<u>\$ -</u>

COMPONENT UNITS

Fixed assets of MCPS, amounting to \$1,492,053,581 at June 30, 1998, are significant in relation to the total component unit fixed assets. The following presents the changes in the MCPS General Fixed Assets Account Group for the year ended June 30, 1998. A summary of MCPS proprietary fund type fixed assets at June 30, 1998 is also presented. Proprietary fund type furniture and equipment is stated at cost. Depreciation is expensed over useful lives of 5 - 12 years using the straight-line method.

	<u>General Fixed Assets Account Group</u>					<u>Proprietary</u>
	Balance				Balance	<u>Fund</u>
	July 1, 1997	Additions	Transfers	Disposals *	June 30, 1998	<u>Enterprise</u>
Land and site improvements	\$ 54,039,963	\$ -	\$ -	\$ (119,943)	\$ 53,920,020	\$ -
Buildings and additions	1,051,599,925	-	18,928,143	(966,925)	1,069,561,143	-
Furniture and equipment	149,682,669	23,678,880	-	(6,153,398)	167,208,151	16,446,296
Construction in progress	<u>114,038,312</u>	<u>121,980,893</u>	<u>(18,928,143)</u>	<u>(22,335,440)</u>	<u>194,755,622</u>	<u>-</u>
Subtotal	1,369,360,869	145,659,773	-	(29,575,706)	1,485,444,936	16,446,296
Accumulated depreciation	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(9,837,651)</u>
Total	<u>\$ 1,369,360,869</u>	<u>\$ 145,659,773</u>	<u>\$ -</u>	<u>\$ (29,575,706)</u>	<u>\$ 1,485,444,936</u>	<u>\$ 6,608,645</u>

* Includes adjustments and construction in progress items not capitalized.

NOTE 8. LONG-TERM DEBT

PRIMARY GOVERNMENT

A) General Obligation Bonds Payable

General obligation bonds are authorized, issued, and outstanding for the following purposes: (1) General County Facilities, (2) Roads and Storm Drainage, (3) Parks, (4) Public Schools, (5) Community College, (6) Consolidated Fire Tax District, (7) Mass Transit Facilities, (8) Water and Sewer Facilities, (9) Public Housing Facilities, (10) Urban Renewal, and (11) Parking Facilities. All bonds are valid and legally binding general obligations of Montgomery County, and constitute an irrevocable pledge of its full faith and credit and unlimited taxing power. Such bonds are payable from ad valorem taxes, unlimited as to rate or amount, on all real, tangible personal, and certain intangible property that is subject to taxation at full rates for local purposes in the County.

General obligation bonds that are carried in the enterprise funds (Bethesda Parking, Silver Spring Parking, Liquor, and Solid Waste Disposal) are payable first from revenues of those funds.

Proceeds from general obligation bonds for parks, public schools, and community college are appropriated by and remitted to the M-NCPPC (a joint venture), MCPS and MCC (component units), respectively. For GAAP purposes, proceeds from debt issuances for these purposes are reflected as other financing sources in the accompanying financial statements. Amounts remitted to the joint venture and component units are reflected as expenditures and other financing uses, respectively. These amounts, appropriated for use by the joint venture and component units, are shown as reconciling items between the budgetary and GAAP basis (see Note 2B).

On January 27, 1998, Montgomery County Government issued \$69,510,000 in general obligation refunding bonds dated January 1, 1998. These bonds were issued with a true interest cost of 4.64%, to advance refund of \$64,500,000 of general obligation (GO) bonds that were previously issued. A detailed listing of these refunded bonds is as follows:

	<u>Dated</u>		<u>True Interest</u>	<u>Originally</u>	<u>Years</u>	<u>Amount</u>
	<u>Date</u>	<u>Maturity</u>	<u>Cost</u>	<u>Issued</u>	<u>Refunded</u>	<u>Refunded</u>
GO Bonds	10/1/92	1993-12	5.4740	\$ 115,000,000	2007-12	\$ 34,500,000
GO Bonds	10/1/94	1995-14	5.7958	<u>100,000,000</u>	2009-14	<u>30,000,000</u>
Total				<u>\$ 215,000,000</u>		<u>\$ 64,500,000</u>

The net proceeds of the general obligation refunding bonds were used to purchase direct obligations, or obligations on which the timely payment of principal and interest is unconditionally guaranteed by the United States of America. These government obligations have been deposited in a trust with an escrow agent to provide for all future debt service payments on the bonds that were refunded. As a result, the refunded bonds are considered to be defeased and the liability for those bonds has been removed from the General Long-Term Debt Account Group.

The debt service requirement by fiscal year for both the refunded and refunding bonds is as follows:

Fiscal Year	Refunded Debt Service Requirements	Refunding Debt Service Requirements	Debt Service Savings (Economic Gain)
1998	\$ 1,900,781	\$ -	\$ 1,900,781
1999	3,801,563	3,369,518	432,045
2000	3,801,563	3,369,518	432,045
2001	3,801,563	3,369,518	432,045
2002	3,801,563	3,369,518	432,045
2003	3,801,563	3,704,518	97,045
2004	3,801,563	3,796,453	5,110
2005	3,801,563	3,798,853	2,710
2006	3,801,563	3,800,453	1,110
2007	3,801,563	3,800,653	910
2008	9,389,844	9,550,028	(160,184)
2009	9,062,812	9,225,852	(163,040)
2010	13,582,186	13,897,102	(314,916)
2011	12,951,561	13,264,101	(312,540)
2012	12,317,812	12,634,601	(316,789)
2013	11,680,937	11,998,082	(317,145)
2014	5,459,375	5,611,317	(151,942)
2015	<u>5,153,125</u>	<u>5,302,880</u>	<u>(149,755)</u>
Total	<u>\$ 115,712,500</u>	<u>\$ 113,862,965</u>	<u>\$ 1,849,535</u>

The present value of the above debt service savings (or economic gain) is \$2,534,975.

In August 1993, \$52,000,000 in general obligation bonds, which mature in the year 2004 and beyond, were defeased. In July 1992, \$242,000,000 in general obligation bonds, which mature in FY99 and beyond, were defeased. These defeasances were effected by placing the proceeds of general obligation refunding bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in these financial statements. As of June 30, 1998, \$52,000,000, and \$242,000,000, respectively, in general obligation bonds referred to above are considered to be defeased.

During FY98, no current or advance refundings of general obligation bonds by proprietary activities occurred.

General obligation bond issues outstanding as of June 30, 1998, are as follows:

	<u>Date</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Originally Issued</u>	<u>Outstanding at June 30, 1998</u>
GO Bonds	05/01/70	1971-00	0.1 - 7.5	\$ 21,600,000	\$ 1,440,000
GO Bonds	02/01/71	1972-01	0.1 - 6.5	13,200,000	1,320,000
GO Bonds	11/01/71	1972-01	0.1 - 6.5	17,700,000	2,360,000
GO Bonds	05/01/79	1980-99	5.0 - 6.0	45,000,000	2,250,000
GO Bonds	06/15/80	1981-00	6.25 - 7.25	50,000,000	5,000,000
GO Bonds	05/01/83	1984-03	7.0 - 9.0	50,000,000	12,500,000
GO Bonds	06/01/84	1985-04	9.0 - 9.75	55,000,000	16,500,000
GO Bonds	05/01/85	1986-05	7.6 - 8.6	65,000,000	22,750,000
GO Bonds	04/01/86	1987-06	5.8 - 6.3	49,925,000	20,000,000
GO Bonds	10/01/88	1989-98	6.7 - 7.25	50,000,000	2,500,000
GO Bonds	04/01/89	1990-99	7.25 - 7.6	75,000,000	3,750,000
GO Bonds	11/01/89	1990-99	6.75 - 6.8	75,000,000	7,500,000
GO Bonds	04/01/90	1991-00	6.8 - 7.0	75,000,000	7,500,000
GO Bonds	10/01/90	1991-00	6.8 - 7.1	75,000,000	11,250,000
GO Bonds	04/01/91	1992-11	6.3 - 6.75	60,000,000	15,000,000
GO Bonds	10/01/91	1992-11	5.75 - 6.12	70,000,000	21,000,000
GO Refunding Bonds	07/01/92	1993-10	2.75 - 5.8	273,038,054	257,953,054
GO Bonds	10/01/92	1993-12	5.0 - 5.75	115,000,000	51,750,000
GO Refunding Bonds	08/15/93	1994-11	2.5 - 5.0	60,005,000	58,380,000
GO Bonds	10/01/93	1994-13	4.4 - 4.9	100,000,000	80,000,000
GO Bonds	10/01/94	1995-14	5.2 - 6.125	100,000,000	55,000,000
GO Bonds	03/15/96	1997-16	5.1 - 5.5	120,000,000	108,000,000
GO Bonds	04/15/97	1998-17	5.0 - 5.375	115,000,000	109,250,000
GO Refunding Bonds	01/01/98	2003-15	3.9 - 5.25	69,510,000	69,510,000
GO Bonds	04/01/98	1999-18	4.875	<u>115,000,000</u>	<u>115,000,000</u>
Total				<u>\$ 1,914,978,054</u>	<u>\$ 1,057,463,054</u>

Changes in general obligation bonds during FY98 are as follows:

	Balance July 1, 1997	Bonds Issued	Bonds Retired	Bonds Refunded	Balance June 30, 1998
General Long-Term Debt Account Group:					
General County	\$ 128,567,966	\$ 12,428,259	\$ 11,590,389	\$ 4,575,000	\$ 124,830,836
Roads and Storm Drainage	308,909,789	35,708,316	24,016,237	13,650,000	306,951,868
Parks	37,222,317	4,620,128	3,591,756	3,405,000	34,845,689
Public Schools	460,466,216	119,734,602	33,122,857	36,780,000	510,297,961
Community College	26,719,180	9,350,927	2,105,254	5,010,000	28,954,853
Consolidated Fire Tax District	13,354,512	826,697	984,009	300,000	12,897,200
Mass Transit	36,288,096	1,841,071	4,772,239	780,000	32,576,928
Water and Sewer	5,000	-	5,000	-	-
Public Housing	2,737,683	-	253,605	-	2,484,078
	<u>1,014,270,759</u>	<u>184,510,000</u>	<u>80,441,346</u>	<u>64,500,000</u>	<u>1,053,839,413</u>
Enterprise Funds:					
Solid Waste Activities:					
General County	2,061,970	-	748,740	-	1,313,230
Liquor:					
General County	5,325	-	4,914	-	411
Parking Lot Districts:					
Bethesda Parking Lot District	2,110,000	-	460,000	-	1,650,000
Silver Spring Parking Lot District	840,000	-	180,000	-	660,000
	<u>5,017,295</u>	<u>-</u>	<u>1,393,654</u>	<u>-</u>	<u>3,623,641</u>
Total	<u>\$ 1,019,288,054</u>	<u>\$ 184,510,000</u>	<u>\$ 81,835,000</u>	<u>\$ 64,500,000</u>	<u>\$ 1,057,463,054</u>

For the general obligation bonds carried in the enterprise funds, a total of \$1,122,475 is classified as current liabilities. This total is comprised of \$482,064 in the Solid Waste Disposal Fund, \$411 in the Liquor Fund, \$460,000 in the Bethesda Parking Lot District Fund, and \$180,000 in the Silver Spring Parking Lot District Fund.

The annual requirements to amortize general obligation bonds outstanding as of June 30, 1998, are as follows:

Fiscal Year Ending June 30	General Obligation Bond Requirements		
	Principal	Interest	Total
1999	\$ 85,850,000	\$ 56,066,498	\$ 141,916,498
2000	83,780,000	50,541,339	134,321,339
2001	80,625,000	45,708,044	126,333,044
2002	80,030,000	41,231,065	121,261,065
2003	79,605,000	36,763,907	116,368,907
2004-2018	<u>647,573,054</u>	<u>201,705,805</u>	<u>849,278,859</u>
Total	<u>\$1,057,463,054</u>	<u>\$ 432,016,658</u>	<u>\$ 1,489,479,712</u>

Article 25A, Section 5(P), of the Annotated Code of Maryland (1994 Montgomery County Code, as amended), authorizes borrowing of funds and issuance of bonds to a maximum of 15 percent of assessed value of all real and personal property within the County. The legal debt margin as of June 30, 1998, is \$3,431,900,762.

General obligation bonds authorized and unissued as of June 30, 1998, are as follows:

Purpose	Authority			Amount
	Chapter	Act	Amount	Unissued
General County, Parks, and Consolidated Fire Tax District	10	1995	\$ 59,285,000	\$ 19,520,000
	32	1995	3,865,000	3,865,000
	8	1997	3,800,000	3,800,000
	32	1997	<u>13,300,000</u>	<u>13,300,000</u>
			<u>80,250,000</u>	<u>40,485,000</u>
Roads and Storm Drainage	32	1995	24,465,000	8,915,000
	8	1997	19,300,000	19,300,000
	32	1997	<u>22,200,000</u>	<u>22,200,000</u>
		<u>65,965,000</u>	<u>50,415,000</u>	
Public Schools and Community College	8	1997	99,400,000	78,963,000
	32	1997	<u>80,800,000</u>	<u>80,800,000</u>
		<u>180,200,000</u>	<u>159,763,000</u>	
Mass Transit	14	1991	12,610,000	795,000
	34	1991	<u>2,160,000</u>	<u>2,160,000</u>
		<u>14,770,000</u>	<u>2,955,000</u>	
Public Housing	17	1981	2,650,000	2,590,000
	13	1982	995,000	995,000
	8	1983	230,000	230,000
	20	1985	900,000	900,000
	13	1986	<u>855,000</u>	<u>855,000</u>
		<u>5,630,000</u>	<u>5,570,000</u>	
Parking Districts:				
Silver Spring	9	1983	2,945,000	2,045,000
	6	1984	<u>1,220,000</u>	<u>1,220,000</u>
		<u>4,165,000</u>	<u>3,265,000</u>	
Bethesda	19	1981	7,325,000	3,040,000
	14	1982	775,000	775,000
	10	1983	<u>1,050,000</u>	<u>1,050,000</u>
		<u>9,150,000</u>	<u>4,865,000</u>	
Total Parking Districts			<u>13,315,000</u>	<u>8,130,000</u>
Total General Obligation Bonds			<u>\$360,130,000</u>	<u>\$267,318,000</u>

In addition to the above bond authority, the County has authority under the provisions of Section 56-13 of the 1994 Montgomery County Code, as amended, to issue County bonds within statutory debt limits to finance approved urban renewal projects.

B) Revenue Bonds Payable

Revenue bonds are authorized, issued, and outstanding to provide funds for the Bethesda Parking Lot District Fund, the Silver Spring Parking Lot District Fund, and the Solid Waste Disposal Fund. These revenue bonds are secured by pledges of the respective funds.

In April 1992, \$49,308,333 (\$26,193,750 Bethesda and \$23,114,583 Silver Spring) in parking revenue bonds were defeased by placing the proceeds of parking revenue refunding bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. As of June 30, 1998, the final portion of these bonds were callable. Therefore, at June 30, 1998, there were no defeased bonds considered outstanding. During FY98, no current or advance refundings of revenue bonds by proprietary activities occurred.

Revenue bond issues outstanding as of June 30, 1998, are as follows:

	Dated			Originally	Outstanding	Unamortized	Carrying Value
	Date	Maturity	Interest Rate	Issued	at June 30, 1998	Discount	at June 30, 1998
Parking Revenue Refunding 1992 Series A:							
Bethesda Parking Lot District	04/15/92	1992-09	2.75 - 6.25	\$ 27,975,000	\$ 20,545,000	\$ (88,664)	\$ 20,456,336
Silver Spring Parking Lot District	04/15/92	1992-09	2.75 - 6.25	24,755,000	17,805,000	(71,075)	17,733,925
Solid Waste System 1993 Series A	03/15/93	1994-13	3.5 - 5.875	50,680,000	42,340,000	(329,406)	42,010,594
Total				<u>\$ 103,410,000</u>	<u>\$ 80,690,000</u>	<u>\$ (489,145)</u>	<u>\$ 80,200,855</u>

Changes in revenue bonds during FY98 are as follows:

	Balance	Bonds Issued	Bonds Retired	Balance	Unamortized	Carrying Value
	July 1, 1997			June 30, 1998	Discount	at June 30, 1998
Bethesda Parking Lot District	\$ 21,950,000	\$ -	\$ 1,405,000	\$ 20,545,000	\$ (88,664)	\$ 20,456,336
Silver Spring Parking Lot District	19,105,000	-	1,300,000	17,805,000	(71,075)	17,733,925
Solid Waste Disposal	44,150,000	-	1,810,000	42,340,000	(329,406)	42,010,594
Total	<u>\$ 85,205,000</u>	<u>\$ -</u>	<u>\$ 4,515,000</u>	<u>\$ 80,690,000</u>	<u>\$ (489,145)</u>	<u>\$ 80,200,855</u>

The annual requirements to amortize revenue bonds outstanding as of June 30, 1998, are as follows:

Fiscal Year Ending June 30	Bethesda Parking Lot District		Silver Spring Parking Lot District	
	Principal	Interest	Principal	Interest
1999	\$ 1,495,000	\$ 1,237,337	\$ 1,395,000	\$ 1,069,303
2000	1,585,000	1,155,113	1,480,000	992,577
2001	1,670,000	1,064,767	1,570,000	908,218
2002	1,785,000	967,908	1,650,000	817,157
2003	1,895,000	862,593	1,760,000	719,808
2004-2013	<u>12,115,000</u>	<u>2,525,348</u>	<u>9,950,000</u>	<u>1,905,277</u>
Total	<u>\$ 20,545,000</u>	<u>\$ 7,813,066</u>	<u>\$ 17,805,000</u>	<u>\$ 6,412,340</u>

Fiscal Year Ending June 30	Solid Waste Disposal		Total Revenue Bond Requirements		
	Principal	Interest	Principal	Interest	Total
1999	\$ 1,900,000	\$ 2,394,521	\$ 4,790,000	\$ 4,701,161	\$ 9,491,161
2000	1,995,000	2,299,521	5,060,000	4,447,211	9,507,211
2001	2,095,000	2,199,771	5,335,000	4,172,756	9,507,756
2002	2,205,000	2,090,832	5,640,000	3,875,897	9,515,897
2003	2,320,000	1,973,966	5,975,000	3,556,367	9,531,367
2004-2013	<u>31,825,000</u>	<u>11,112,203</u>	<u>53,890,000</u>	<u>15,542,828</u>	<u>69,432,828</u>
Total	<u>\$ 42,340,000</u>	<u>\$ 22,070,814</u>	<u>\$ 80,690,000</u>	<u>\$ 36,296,220</u>	<u>\$ 116,986,220</u>

Revenue bonds authorized and unissued as of June 30, 1998, are as follows:

Purpose	Resolution Number	Year	Amount	Amount
			Authorized	Unissued
Parking Lot Districts	11-1383	1989	\$ 51,163,000	\$42,088,000
Solid Waste Disposal	12-1010	1993	<u>56,935,000</u>	<u>6,255,000</u>
Total			<u>\$ 108,098,000</u>	<u>\$ 48,343,000</u>

Restricted assets related to these revenue bonds, classified as Investments or Equity in Pooled Cash and Investments for balance sheet purposes, include the following:

Purpose	Bethesda	Silver Spring	Solid
	Parking Lot District	Parking Lot District	Waste Disposal
Operation and Maintenance Account - Available to pay current expenses	\$ 598,255	\$ 870,227	\$ -
Debt Service Account - Used to pay debt service on bonds	275,591	224,192	3,306
Debt Service Reserve Account (including accrued interest) - Available to pay debt service on bonds if there is insufficient money available in the Debt Service Account	-	-	4,325,060
Renewal and Renovation Account - Available for payment of renewals, replacements, renovations, and unusual and extraordinary repairs	<u>1,500,000</u>	<u>1,500,000</u>	<u>420,888</u>
Total	<u>\$ 2,373,846</u>	<u>\$ 2,594,419</u>	<u>\$ 4,749,254</u>

In lieu of Debt Service Reserve Accounts, the 1992 Series A Parking Refunding Bonds are being secured with a municipal bond insurance policy. The one-time payment for this policy was \$125,887 and \$111,397 for the Bethesda Parking Lot District and the Silver Spring Parking Lot District, respectively. The County government is in compliance with all significant financial bond covenants relative to the Parking Revenue Refunding Bonds (Bethesda Parking Lot District and Silver Spring Parking Lot District) 1992 Series A.

C) Bond Anticipation Notes Payable

Commercial paper bond anticipation notes (BANs) are authorized, issued, and outstanding as financing sources for capital construction and improvements. Changes in BANs during FY98 are as follows:

	Balance			Balance
	July 1, 1997	BANs Issued	BANs Retired	June 30, 1998
BAN Series 1995 -A	\$ 40,000,000	\$ -	\$ 40,000,000	\$ -
BAN Series 1995 -B	-	110,000,000	75,000,000	35,000,000
BAN Series 1995 -C	-	50,000,000	-	50,000,000
BAN Series 1995 -D	-	65,000,000	-	65,000,000
Total	<u>\$ 40,000,000</u>	<u>\$ 225,000,000</u>	<u>\$ 115,000,000</u>	<u>\$ 150,000,000</u>

BAN Notes, Series 1995-A, totaling \$40,000,000 and BAN Notes, Series 1995-B, totaling \$75,000,000, were retired on May 6, 1998, with proceeds from general obligation bonds dated April 1, 1998. The interest rate changes based on market conditions. During FY98, the rate of interest varied from 2.00 to 4.30 percent. The maximum rate of interest under the terms of the issue is 15 percent per annum.

Interest earned on BANs totaled \$4,947,418 during FY98, of which \$2,913,655 is accounted for in the Debt Service Fund.

BANs amounting to \$150 million at June 30, 1998, were issued during FY98 at varying maturities to a maximum of 270 days, under a program which originally matured on November 2, 1998, and has been extended to June 30, 2002. The County has reissued the notes upon maturity and will continue to do so, until they are replaced with long-term bonds. The County intends to issue long-term general obligation bonds in FY99, and intends to use the proceeds first to replace the \$150 million in BANs outstanding at June 30, 1998. In connection with these BANs, the County entered into a line of credit agreement on November 2, 1995, with Union Bank of Switzerland (the Bank) in which the County may borrow, on a

revolving basis, up to \$200 million to pay the principal on the notes, and up to \$14.8 million to pay the interest. Any principal advances under the line of credit must be repaid by July 31, 1999. Because the County has entered into a financing agreement that ensures the BANs can be refinanced on a long-term basis, these BANs are classified as long-term debt in the accompanying financial statements.

The amount of BANs authorized and unissued as of June 30, 1998, is \$117,318,000 per Resolution No. 13-294 dated October 10, 1995, as amended.

D) Other General Long-Term Debt

Changes in general long-term debt other than bonds, notes, and mortgages payable during FY98 are as follows:

	Balance <u>July 1, 1997</u>	Earned/ <u>Additions</u>	Used/ <u>Payments</u>	Nonmonetary Settlements/ <u>Adjustments</u>	Balance <u>June 30, 1998</u>
Compensated Absences	\$ 32,377,660	\$ 23,428,268	\$ 24,304,490	\$ 2,409,860	\$ 33,911,298
Claims and Judgments	7,250,000	-	2,053,938	(4,946,062)	250,000
Capital Leases	407,934	401,606	372,033	-	437,507
Equipment Purchase Contracts	165,074	-	75,267	-	89,807

E) Conduit Debt Obligations

Conduit debt obligations refer to certain limited-obligation revenue bonds or similar debt instruments issued by the County for the purpose of providing capital financing for a third party that is not part of the County's reporting entity (see Note 1A). From time to time, the County has issued Economic Development Revenue Bonds for the purposes of financing or refinancing any costs of acquiring facilities for third party facility users or of refunding outstanding bonds. Facility users may be individuals, public or private corporations, or other entities. The bonds are secured by the facilities financed and are payable from the revenues or moneys to be received by the County under loan agreements with the facility users and from other moneys made available to the County for such purpose. The bonds do not constitute a debt or charge against the general credit or taxing powers of the County, the State, or any political subdivision thereof. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of June 30, 1998, there were forty issues of Economic Development Revenue Bonds outstanding. Of these, thirty-eight were issued prior to July 1, 1996 and two were issued during FY98. The aggregate principal amount payable at June 30, 1998, for bonds issued prior to July 1, 1996 could not be determined; however, their original issue amounts totaled \$232 million. The principal amount payable at June 30, 1998, for bonds issued after July 1, 1996, totaled \$5.5 million.

COMPONENT UNITS

At June 30, 1998, the HOC revenue bonds, which are significant in relation to the total component unit long-term debt, are outstanding by type of bond as follows:

<u>Purpose</u>	
Multi-Family Mortgage Purchase Program Fund	\$ 256,516,630
Single Family Mortgage Purchase Program Fund	<u>339,800,202</u>
Total	<u><u>\$ 596,316,832</u></u>

Interest rates on the HOC Multi-Family and Single Family Mortgage Purchase Program Fund bonds ranged from 3.70% to 11.75% and 3.625% to 7.625%, respectively, as of June 30, 1998.

Pursuant to Section 15 of Article 44A of the Annotated Code of Maryland, the County may, by local law, provide its full faith and credit as guarantee of bonds issued by HOC in principal amount not exceeding \$50,000,000. Section 20-32 of the Montgomery County Code provides the method by which the County has implemented the guarantee. The debt service requirements by fiscal year for the HOC debt guaranteed by the Primary Government are as follows:

Fiscal Year Ending June 30	Guaranteed Revenue Bond Requirements		
	Principal	Interest	Total
1999	\$ 210,000	\$ 752,417	\$ 962,417
2000	225,000	739,779	964,779
2001	240,000	725,990	965,990
2002	255,000	711,107	966,107
2003	275,000	695,059	970,059
2004 and thereafter	<u>10,635,000</u>	<u>7,231,617</u>	<u>17,866,617</u>
Total	<u>\$ 11,840,000</u>	<u>\$ 10,855,969</u>	<u>\$ 22,695,969</u>

The total debt service requirements for HOC revenue bonds, which include the portion guaranteed by the Primary Government (presented above), are as follows:

Fiscal Year Ending June 30	Total Revenue Bond Requirements		
	Principal	Interest	Total
1999	\$ 8,647,824	\$ 35,366,265	\$ 44,014,089
2000	10,207,799	33,766,510	43,974,309
2001	14,233,631	33,181,209	47,414,840
2002	10,985,126	32,555,003	43,540,129
2003	11,807,326	31,871,483	43,678,809
2004 and thereafter	<u>540,435,126</u>	<u>455,189,548</u>	<u>995,624,674</u>
Total	<u>\$596,316,832</u>	<u>\$ 621,930,018</u>	<u>\$ 1,218,246,850</u>

Changes in the HOC revenue bonds during FY98 are as follows:

Purpose	Balance	Bonds	Bonds	Balance
	July 1, 1997	Issued *	Retired **	June 30, 1998
Multi-Family Mortgage Purchase Program Fund	\$293,197,038	\$ 234,137	\$36,914,545	\$256,516,630
Single Family Mortgage Purchase Program Fund	<u>294,432,758</u>	<u>104,591,022</u>	<u>59,223,578</u>	<u>339,800,202</u>
	<u>\$587,629,796</u>	<u>\$104,825,159</u>	<u>\$96,138,123</u>	<u>\$596,316,832</u>

* Includes accretions

** Includes bond discounts

The County is not liable in any manner for the remaining debt of HOC or any debt of MCPS, MCC, or MCRA. BUPI has no long-term debt.

HOC has issued a number of individual bonds for financing of multi-family developments for which HOC has no legal liability for repayment or administration, and accordingly, the bonds are not included in the accompanying financial statements. HOC participates in such issuances in order to increase the availability of affordable housing in the County. The bonds outstanding are summarized below:

Bonds outstanding, July 1, 1997	\$ 401,663,881
Redemptions during the year	<u>(8,916,938)</u>
Bonds outstanding, June 30, 1998	<u>\$ 392,746,943</u>

NOTE 9. LEASE AND EQUIPMENT PURCHASE CONTRACT OBLIGATIONS

A) **Operating Leases** - Commitments for FY99 under lease agreements for facilities and equipment provide for annual rental payments of approximately \$9,257,000. Lease agreements typically provide for automatic termination on July 1 of any year in which funds to meet subsequent rental payments are not appropriated.

B) **Capital Lease/Equipment Purchase Contracts** - The following is a schedule by year of future minimum payments and the present value of net minimum payments as of June 30, 1998, for capital leases and equipment purchase contracts:

Fiscal Year <u>Ending June 30</u>	General	Special Revenue	Total
	<u>Fund</u>	<u>Fund</u>	
1999	\$ 253,367	\$ 33,598	\$ 286,965
2000	76,424	21,606	98,030
2001	17,206	-	17,206
2002	<u>13,758</u>	<u>-</u>	<u>13,758</u>
Total minimum lease payments	360,755	55,204	415,959
Less: Amount representing interest	<u>(22,916)</u>	<u>(3,702)</u>	<u>(26,618)</u>
Present value of net minimum contract payments	<u>\$ 337,839</u>	<u>\$ 51,502</u>	<u>\$ 389,341</u>

NOTE 10. SEGMENTS OF ENTERPRISE ACTIVITIES

There are nine enterprise activities of the Primary Government which are financed primarily from user charges and product sales. Segment information for the fiscal year ended June 30, 1998, for these activities is as follows:

	Liquor	Solid Waste Disposal	Solid Waste Collection	Permitting Services	Community Use of Educational Facilities
Operating Revenues:					
Sales - net of discounts	\$ 114,528,681	\$ -	\$ -	\$ -	\$ -
Charges for services	11,640	79,043,055	4,651,548	1,619,124	3,566,145
Licenses and permits	-	-	-	9,261,208	-
Fines and forfeits	-	-	-	68,875	-
Total Operating Revenues	<u>114,540,321</u>	<u>79,043,055</u>	<u>4,651,548</u>	<u>10,949,207</u>	<u>3,566,145</u>
Operating Expenses:					
Cost of goods sold	82,975,466	-	-	-	-
Depreciation and amortization	478,994	2,580,179	8,783	-	55,942
Other	16,848,930	74,431,661	4,778,510	11,568,305	3,079,453
Total Operating Expenses	<u>100,303,390</u>	<u>77,011,840</u>	<u>4,787,293</u>	<u>11,568,305</u>	<u>3,135,395</u>
Operating Income (Loss)	<u>14,236,931</u>	<u>2,031,215</u>	<u>(135,745)</u>	<u>(619,098)</u>	<u>430,750</u>
Non Operating Items:					
Property taxes	-	-	-	-	-
Intergovernmental	-	1,076,157	-	-	71,081
Investment income	-	5,397,250	213,474	78,868	223,397
Investment expense	(245)	(2,672,179)	-	-	-
Miscellaneous	1,273	106,064	-	-	-
Total Non Operating Revenues (Expenses)	<u>1,028</u>	<u>3,907,292</u>	<u>213,474</u>	<u>78,868</u>	<u>294,478</u>
Operating Transfers In	-	1,164,829	-	3,500,000	71,750
Operating Transfers Out	<u>(13,950,228)</u>	<u>(888,710)</u>	<u>(106,910)</u>	<u>(1,530,000)</u>	<u>(131,310)</u>
Total Operating Transfers In (Out)	<u>(13,950,228)</u>	<u>276,119</u>	<u>(106,910)</u>	<u>1,970,000</u>	<u>(59,560)</u>
Net Income (Loss) / Change in Retained Earnings	<u>\$ 287,731</u>	<u>\$ 6,214,626</u>	<u>\$ (29,181)</u>	<u>\$ 1,429,770</u>	<u>\$ 665,668</u>
Current Capital Contributions	-	-	-	-	-
Equity Transfers In (Out)	-	-	-	-	-
Property, Plant, and Equipment:					
Additions	446,674	765,194	7,100	-	-
(Deductions)	<u>(389,407)</u>	<u>(333,165)</u>	<u>(79,030)</u>	-	<u>(12,637)</u>
Net Working Capital (Deficit)	<u>11,951,269</u>	<u>35,009,383</u>	<u>1,514,355</u>	<u>(615,515)</u>	<u>3,942,915</u>
Total Assets	<u>26,376,154</u>	<u>114,493,806</u>	<u>2,230,635</u>	<u>4,086,785</u>	<u>4,364,023</u>
Total Fund Equity (Deficit)	<u>16,956,686</u>	<u>21,880,267</u>	<u>1,523,137</u>	<u>(615,515)</u>	<u>3,976,857</u>
Bonds and Other Long Term Liabilities					
Payable from Operating Revenues	411	80,204,724	-	-	-

(Continued)

~~Segments of Enterprise Activities, concluded:~~

	Silver Spring Parking	Bethesda Parking	Wheaton Parking	Montgomery Hills Parking	Total
Operating Revenues:					
Sales - net of discounts	\$ -	\$ -	\$ -	\$ -	\$ 114,528,681
Charges for services	3,905,635	5,056,341	499,144	17,272	98,369,904
Licenses and permits	-	-	-	-	9,261,208
Fines and forfeits	2,052,881	2,222,561	333,669	40,820	4,718,806
Total Operating Revenues	5,958,516	7,278,902	832,813	58,092	226,878,599
Operating Expenses:					
Cost of goods sold	-	-	-	-	82,975,466
Depreciation and amortization	1,578,517	1,951,570	146,894	-	6,800,879
Other	5,403,014	4,013,533	599,175	68,063	120,790,644
Total Operating Expenses	6,981,531	5,965,103	746,069	68,063	210,566,989
Operating Income (Loss)	(1,023,015)	1,313,799	86,744	(9,971)	16,311,610
Non Operating Items:					
Property taxes	2,931,718	2,339,959	338,320	59,266	5,669,263
Intergovernmental	90,830	-	-	-	1,238,068
Investment income	406,816	854,630	462,458	33,372	7,670,265
Investment expense	(1,196,875)	(1,457,944)	-	-	(5,327,243)
Miscellaneous	-	-	-	-	107,337
Total Non Operating Revenues (Expenses)	2,232,489	1,736,645	800,778	92,638	9,357,690
Operating Transfers In	554,565	-	-	-	5,291,144
Operating Transfers Out	(599,522)	(2,271,436)	(779,106)	(20,560)	(20,277,782)
Total Operating Transfers In (Out)	(44,957)	(2,271,436)	(779,106)	(20,560)	(14,986,638)
Net Income (Loss) / Change in Retained Earnings	\$ 1,164,517	\$ 779,008	\$ 108,416	\$ 62,107	\$ 10,682,662
Current Capital Contributions	-	-	-	-	-
Equity Transfers In (Out)	-	-	-	-	-
Property, Plant, and Equipment:					
Additions	405,745	2,321,535	157,684	-	4,103,932
(Deductions)	(108,666)	(73,898)	-	-	(996,803)
Net Working Capital (Deficit)	2,985,734	9,359,787	8,372,886	627,689	73,148,503
Total Assets	49,058,793	71,003,679	13,150,343	669,444	285,433,662
Total Fund Equity (Deficit)	29,725,543	47,877,087	13,030,998	648,675	135,003,735
Bonds and Other Long Term Liabilities					
Payable from Operating Revenues	18,393,925	22,106,336	-	-	120,705,396

NOTE 11. FUND EQUITY

PRIMARY GOVERNMENT

A) Contributed Capital

Enterprise and Internal Service Funds record the following as contributed capital: Cash transfers of equity from other funds, grants awarded for the acquisition of land, buildings, and equipment, and such assets contributed from other funds. The following schedule shows changes in contributed capital during the fiscal year:

	Balance July 1, 1997	Asset Donations	Balance July 1, 1998
Liquor	\$ 861,657	\$ -	\$ 861,657
Community Use of Educational Facilities	4,981	-	4,981
Motor Pool	12,849,036	30,490	12,879,526
Liability and Property Coverage Self Insurance	270,651	-	270,651
Total Contributed Capital	<u>\$ 13,986,325</u>	<u>\$ 30,490</u>	<u>\$ 14,016,815</u>

B) Reservation of Retained Earnings

Retained earnings reserved at year end for purchase/construction commitments relating to the future acquisition or construction of capital assets are as follows:

<u>Enterprise Funds</u>	<u>Total</u>
Liquor	\$ 865,416
Solid Waste Disposal	18,808,040
Silver Spring Parking Lot District	3,569,718
Bethesda Parking Lot District	3,413,598
Wheaton Parking Lot District	1,062,281
Total Reservation of Retained Earnings	<u>\$ 27,719,053</u>

C) Reservation of Fund Balance

Fund Balance reserves, representing those resources that are for a specific purpose and that are, therefore, not available for appropriation for other purposes, are as follows:

<u>Purpose of Reservation</u>	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Trust</u>	<u>Total</u>
Encumbrances	\$ 17,704,489	\$ 4,229,845	\$ 49,494,095	\$ -	\$ 71,428,429
Long-term receivables *	-	25,477,304	8,222,208	-	33,699,512
Inventories	1,948,887	-	3,080,089	-	5,028,976
Prepays	261,881	132,096	-	-	393,977
Unspent Fire-Rescue grant	-	607,558	-	-	607,558
Employees' pension benefits	-	-	-	1,758,294,426	1,758,294,426
External investment pool participants	-	-	-	15,437,507	15,437,507
Total Reserved Fund Balance	<u>\$ 19,915,257</u>	<u>\$ 30,446,803</u>	<u>\$ 60,796,392</u>	<u>\$ 1,773,731,933</u>	<u>\$ 1,884,890,385</u>

* Long-term receivables in the Grants Special Revenue Fund have not resulted in revenue recognition, and are, therefore, offset by deferred revenue rather than reserved fund balance.

D) Unreserved Fund Balance Designations

Unreserved fund balance designations are as follows:

Purpose of Designation	Special			Total
	General	Revenue	Trust	
Transfers to Capital Projects Fund	\$ 14,842,202	\$ 5,353,000	\$ 2,384,130	\$ 22,579,332
Trust activities	-	-	12,408,338	12,408,338
Subsequent years' expenditures	49,199,257	5,757,743	-	54,957,000
Other activities	8,717,559	-	-	8,717,559
Total	<u>\$ 72,759,018</u>	<u>\$ 11,110,743</u>	<u>\$ 14,792,468</u>	<u>\$ 98,662,229</u>

E) Reconciliation of Beginning Fund Equities

General fixed assets at July 1, 1997, have been restated by \$1,576,621 to reflect functional reclassifications and by \$5,386,041 to correct the accounting for assets recorded as transferred to a component unit in prior years.

The General Fund and HOC Treasury Bonds Nonexpendable Trust Fund fund balances at July 1, 1997, have been restated by (\$851,955) and \$1,491,583, respectively, to account for the cumulative effect of implementation of GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools" (see Note 3).

Beginning in FY98, the Solid Waste Disposal and Solid Waste Collection Enterprise Funds, previously reported as a combined Solid Waste Activities Enterprise Fund, are now separately presented in the accompanying financial statements.

F) Deficit Fund Balance / Retained Earnings

The Permitting Services Enterprise Fund, created in FY97, has a deficit of \$615,515 at June 30, 1998. This deficit represents the remaining portion of an accumulated compensated absences liability taken on by the fund, for County employees now accounted for in this fund. The County intends, beginning in FY99, to budget operating transfers from the General Fund to fully fund this portion of the deficit by FY01.

G) Operating Transfers In (Out)

The following table reconciles the difference between Operating Transfers In and Operating Transfers (Out) as reflected in the Combined Financial Statements:

Exhibit A-3 (net)	\$ 13,884,888
Exhibit A-5 (net)	<u>(13,884,888)</u>
Difference	<u>\$ -</u>

H) Operating Transfers In (Out) - Between Component Units and Primary Government

The following table reconciles the difference between the Primary Government's Operating Transfers (Out) to Component Units and the Component Units' Operating Transfers In from the Primary Government as reflected in the Combined Financial Statements:

"Operating transfers (out) - Component Units" on Exhibit A-3	\$ (983,201,941)
"Operating transfers in - Component Units" on Exhibit A-3	100,295
"Operating transfers in - Primary Government" on Exhibit A-3	929,280,796
"Operating transfers (out) - Component Units" on Exhibit A-5	(601,194)
"Operating transfers in - Primary Government" on Exhibit A-5	3,301,604
"Transfers in - Primary Government" on Exhibit A-9	<u>44,997,897</u>
Difference	<u>\$ (6,122,543) *</u>

* The financial data of MCC is presented in accordance with generally accepted accounting principles (GAAP) for colleges and universities under the "AICPA College Guide Model." Under this model, MCC recognizes as revenue and other additions to its unexpended plant fund balance, the appropriations of governmental agencies, at the time of appropriation. MCC capital appropriations funded by the County are not recorded as Operating Transfers Out to Component Units until expenditures are incurred by MCC. Because the measurement focus under the AICPA model differs from GAAP for governmental entities, the amounts shown as Due to Component Units and Due from Primary Government do not agree (see Note 6) and operating transfers between the primary government and component units do not agree. Both differences relate to revenue recognition by MCC prior to expenditure recognition by the County.

I) Equity Transfers In (Out)

The following table reconciles the Equity Transfers In and Equity Transfers (Out) as reflected in the Combined Financial Statements:

"Equity transfers in (out)" on Exhibit A-3	\$ (30,490)
"Equity transfers in (out)" on Exhibit A-5	<u>30,490</u>
Difference	<u>\$ -</u>

J) Federal and State Grant Programs

Included in the financial statements are expenditures and revenues related to Federal and State grant programs for which the County is the grantee. The reserve for encumbrances in the governmental fund types does not include \$6,316,735 of encumbrances related to these grants. When the expenditure occurs in the subsequent year, revenue will be earned based on the grant agreements, and resources will then be made available. The County believes that inclusion of such encumbrances as reserved fund balance would distort the unreserved fund balance.

COMPONENT UNITS

K) Reclassifications

The following reclassifications have been made to the component units' financial data for inclusion in the Montgomery County, Maryland Comprehensive Annual Financial Report to conform with the reporting

entity concept. MCPS recognized in its Capital Projects Fund revenue of \$75,908,693 from the County. Certain financial information for the MCPS Capital Projects Fund is reclassified as follows for financial reporting purposes at the reporting entity level: \$153,767,621 is reclassified as Transfers In; and \$47,009,654 is reclassified as Fund Balance.

L) Reservation of Retained Earnings

MCPS retained earnings reserved at June 30, 1998, of \$32,751,733 represent amounts established for the payment of employee benefit claims. MCRA reserved retained earnings of \$397,063 represents commitments to spend financial resources in future periods.

M) Reservation and Designation of Fund Balance

Component unit reservations of fund balance, and the purpose of such reservations at June 30, 1998, are as follows:

<u>Purpose of Reservation</u>	<u>MCPS</u>	<u>MCC</u>	<u>BUPI</u>	<u>Total</u>
Encumbrances	\$ 55,985,833	\$ -	\$ 176,771	\$ 56,162,604
Inventories	3,796,737	-	-	3,796,737
Prepays	8,876	-	-	8,876
Employees' pension benefits	642,515,533	-	-	642,515,533
Commitments for specified programs and emergency plant repairs and maintenance	-	2,596,353	-	2,596,353
Total Reserved Fund Balances	<u>\$ 702,306,979</u>	<u>\$ 2,596,353</u>	<u>\$ 176,771</u>	<u>\$ 705,080,103</u>

MCC designated fund balance of \$9,673,573 represents amounts designated for subsequent years' expenditures, and amounts allocated for auxiliary enterprises and continuing education.

N) Reconciliation of Beginning Fund Equities

HOC retained earnings at July 1, 1997, have been restated by \$2,966,467 to account for the cumulative effect of implementation of GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools."

NOTE 12. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

A) Risk Management

Montgomery County, for itself and certain component and governmental units, maintains two self-insurance internal service funds. Montgomery County management believes it is more economical to manage its risks internally and set aside assets for claim settlements in these internal service funds.

One fund is maintained for Liability and Property Coverage under which participants share the costs of workers' compensation, comprehensive general, automobile and professional liability, fire and theft, the liability for errors, omissions, and other selected areas which require coverage. Commercial insurance is purchased for claims in excess of coverage by the self-insurance fund and for other risks not covered by the fund. In addition to all funds of Montgomery County, participants in this program include the Montgomery County Public Schools, the Montgomery Community College, the Maryland-National

Capital Park and Planning Commission, the City of Rockville, the Montgomery County Revenue Authority, the Housing Opportunities Commission of Montgomery County, the independent fire/rescue corporations, the Bethesda Chevy Chase Rescue Squad, the Housing Authority of the City of Rockville, the Town of Somerset, the Village of Martin's Addition, and the City of Gaithersburg. The liability for claims with respect to all participants transfers to the self-insurance fund, except for the Maryland-National Capital Park and Planning Commission which retains ultimate liability for its own claims.

The second fund is maintained for Employee Health Benefits under which participants share medical, dental, and life insurance. The Washington Suburban Transit Commission, the Bethesda Urban Partnership, Inc. (from April 1 – June 30, 1998), Montgomery Community Television, the Strathmore Hall Foundation, Inc., and certain employees of the State of Maryland in addition to some of the participants in the Liability and Property Coverage program, participate in this program.

Both internal service funds use the accrual basis of accounting. Payments to the Liability and Property Coverage fund by participants and recognition of the fund's liability for unpaid claims including those incurred but not reported, are based on actuarial estimates. For the Employee Health Benefits fund, charges to participants are based on actuarial estimates. Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims and other economic and social factors. During the fiscal year, there were no significant reductions in insurance coverage in either fund from the prior year. For the past four years, no insurance settlements exceeded insurance coverage in either fund. Changes in the balances of Claims Payable for both self-insurance funds and for litigation claims in the General Long-Term Obligations Account (see Litigation Section below) for FY98 and FY97 are as follows:

	<u>Liability & Property Coverage</u>	<u>Employee Health Benefits</u>
Balance July 1, 1996	\$ 39,108,689	\$ 8,917,713
Claims and changes in estimates	13,405,902	37,493,209
Claim payments *	<u>(12,999,807)</u>	<u>(37,433,910)</u>
Balance June 30, 1997	39,514,784	8,977,012
Claims and changes in estimates	10,650,721	36,406,991
Claim payments *	<u>(11,709,505)</u>	<u>(38,254,851)</u>
Balance June 30, 1998 **	<u>\$ 38,456,000</u>	<u>\$ 7,129,152</u>

* Includes non-monetary settlements and therefore write-offs of previously recorded litigation claims.

** Includes incurred but not reported claims of \$19,391,000 and \$7,129,152, for the Liability and Property Coverage and the Employee Health Benefits Self Insurance Funds, respectively.

B) Litigation

In addition to those suits in which claims for liability are adequately covered by insurance, Montgomery County, Maryland is a defendant in various suits involving tort claims, violations of civil rights, breach of contract, inverse condemnation, and other suits arising in the normal course of business. In the opinion of the County Attorney, the estimated liability of the County in the resolution of these cases will

not exceed \$7,500,000. In accordance with generally accepted accounting principles, a portion of this amount has been reflected as a liability in the General Long-Term Obligations Account Group, as the County's liability on certain claims appears to be likely.

C) Grants, Entitlements, and Shared Revenues

The County participates in a number of Federal and State assisted grant and/or entitlement programs, principal of which are the Community Development Block Grant, the Head Start Grant, and the Medical Assistance Grant. These programs are subject to financial and compliance audits by the grantors or their representatives. The audits of most of these programs for, or including, the year ended June 30, 1998, have not yet been completed. In accordance with the provisions of the Single Audit Act of 1984 and Circular A-133, issued by the U.S. Office of Management and Budget, the County participates in single audits of federally assisted programs. The amount of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although management does not believe disallowed amounts, if any, would be material.

D) Landfill

The County, in its effort to provide for estimated capping and post closure maintenance costs for its landfill, accrues such costs, and recognizes those costs as expenses as the landfill is utilized. The October 9, 1991 U.S. Environmental Protection Agency (EPA) rule, "Solid Waste Disposal Criteria," established closure requirements for all municipal solid waste landfills (MSWLFs) that receive waste after October 9, 1991. The County has been accruing closure expenses since FY91 in an attempt to match the costs of closure against the revenues associated with the use of the landfill. The Governmental Accounting Standards Board Statement No. 18, issued in August, 1993, expanded the items considered in the original EPA calculation of closure costs. The expanded requirements include post closure care for thirty years for landfills accepting refuse materials after October, 1991. The total closure and post closure costs are estimated at \$53,740,000, which has been fully accrued through June 30, 1998. Of this total amount accrued, \$6,653,631 in actual costs has been paid out in prior years, and \$4,511,469 was paid in FY98, resulting in a net liability of \$42,574,900 at June 30, 1998. The current and non-current portions of this liability at year-end are \$5,694,000 and \$36,880,900, respectively. These costs are subject to change based on inflation, changes in technology, or applicability of laws and regulations. The County plans to primarily use operating cash to pay for these closure and post closure costs as they are incurred in the future. As anticipated, the Oaks Landfill closed on October 22, 1997, and the County began using out-of-County waste hauling during FY98. At the time the landfill was closed, total cumulative capacity used was 6,990,437 tons.

E) Other Commitments

County internal service funds have entered into contract commitments that remain uncompleted as of year-end. The amount of outstanding commitments at June 30, 1998, not reflected in the accompanying financial statements, is as follows:

Motor Pool	\$2,300,078
Central Duplicating	194,761
Liability and Property Coverage Self Insurance	138,175
Employee Health Benefits Self Insurance	<u>62,685</u>
Total	<u>\$2,695,699</u>

NOTE 13. SUBSEQUENT EVENTS

PRIMARY GOVERNMENT

On June 30, 1998, the County Council introduced, and subsequently approved, legislation to increase the level of authorized general obligation debt principal by an additional \$194,700,000.

In September 1998, the County entered into a \$1,800,000 long-term loan agreement with the Maryland State Department of Business and Economic Development. Under the terms of the loan, the County is to reloan the proceeds to a private corporation, for purposes of relocation to and renovation of facilities in the County. If certain conditions are met, \$150,000 of the loan may be converted to a grant. The loan is secured by the County's full faith and credit.

See also Note 15 for deferred compensation plan changes.

COMPONENT UNITS

In September 1998, HOC issued \$12,900,000 in housing development bonds. These bonds were issued to provide permanent financing for the acquisition and rehabilitation of a 126-unit residential rental development in Landings Edge and the construction of a 50-unit residential rental development in Pooks Hill. The source of funding for the bonds are the HOC general revenues. The bonds will mature July 1, 2000 through July 1, 2028. The payment of principal and interest on the bonds is guaranteed by the County.

NOTE 14. JOINT VENTURES

The Primary Government participates in six joint ventures which are not included as part of the reporting entity. The Primary Government does not have a separable financial interest in any of the joint ventures. Therefore, no "Investment in Joint Ventures" is included in the combined financial statements. Audited financial statements are available from each of the six organizations. A general description of each joint venture follows:

Maryland-National Capital Park and Planning Commission (M-NCPPC)

M-NCPPC is a body corporate of the State of Maryland established by the Maryland General Assembly in 1927. M-NCPPC is a bi-county agency. The Board of Commissioners consists of ten members, five each from Montgomery and Prince George's Counties. The Montgomery County members are appointed by the County Council with the approval of the County Executive. The counties' oversight of M-NCPPC also includes budget approval over their respective shares of the operating and capital budgets. Each county is also required by law to guarantee the general obligation bonds of the Commission issued for its jurisdiction.

At June 30, 1998, M-NCPPC had outstanding notes payable and bonds payable in the amount of \$168,027,946, of which \$11,922,946 was self-supporting. Of the total amount payable, \$1,313,564 represented debt due within one year. Generally, debt of M-NCPPC is payable from its resources; however, the participating counties must guarantee payment of interest and principal on the debt that is not self-supporting. Montgomery County's contingent liability for non self-supporting M-NCPPC debt at June 30, 1998, is \$29,450,000, which represents general obligation bonds outstanding for the Montgomery County jurisdiction at year-end.

Washington Suburban Sanitary Commission (WSSC)

WSSC is a bi-county instrumentality of the State of Maryland created to provide water supply and sewage disposal services for Montgomery and Prince George's Counties. The two participating counties share equal control over WSSC in the selection of the six-member governing body, budgeting authority, and financing responsibility.

At June 30, 1998, WSSC had outstanding notes payable and bonds payable in the amount of \$1,821,678,486, of which \$1,800,208,486 was self-supporting. Of the total amount payable, \$136,939,000 represented debt due within one year. Generally, debt of WSSC is payable from its resources; however, the participating counties must guarantee payment of interest and principal on the debt that is not self-supporting. At June 30, 1998, all WSSC debt is self-supporting.

Washington Suburban Transit Commission (WSTC)

The Washington Suburban Transit District (WSTD), encompassing Prince George's and Montgomery Counties, Maryland, was chartered by the State of Maryland in 1965 to, among other things, coordinate and participate in the formulation of the transit plan of the Washington Metropolitan Area Transit Authority for WSTD. The WSTD is governed by the WSTC, which is composed of three representatives each from Prince George's and Montgomery Counties and one representative from the Maryland Department of Transportation. One commissioner from each county is appointed by the Governor of the State of Maryland, and the other two commissioners are appointed by the chief executive officer of the organizations they represent. The two participating counties have equal budgetary authority and financial responsibility for WSTC; however, both are required to act in consultation with the State Department of Transportation. WSTC's liabilities are limited to funds payable from the participating counties and the State under outstanding grant agreements and State legislation. Montgomery County made an operating contribution totaling \$41,195 to WSTC during FY98. The FY98 WSTC Annual Financial Report was not available when this report was published.

Washington Metropolitan Area Transit Authority (WMATA)

WMATA was created in 1967 by interstate compact among the states of Maryland and Virginia and the District of Columbia. The Authority's primary function is to plan, develop, finance, and operate transit facilities serving the Washington metropolitan area. The governing authority of WMATA is a twelve-member Board of Directors. Maryland, Virginia, and the District of Columbia each appoint four directors. Of Maryland's four directors, two are appointed by the Governor of the State of Maryland, and one each is appointed by the respective county from among its appointees to WSTC. Since WSTC is a joint venture of Montgomery and Prince George's Counties, Montgomery County participates in WMATA through WSTC.

Montgomery County is committed to participation in and subsidization of the WMATA and its regional Metro Rapid Rail and Metro Bus programs. As a result of State legislation, the State of Maryland is required to fund the County's share of rail and bus operating expenses, less any Federal grant monies provided under Section 9 of the Urban Mass Transportation Act. In addition, the State is required to fund 75 percent of the annual debt service on revenue bonds issued by WMATA in connection with the construction of the Metro Rapid Rail System. The County's share of the cost of construction of the Metro Rapid Rail System has been totally assumed by the State. In addition, the State has traditionally funded 75 percent of the County's share of WMATA capital equipment replacement costs, on a discretionary basis.

A summary reflecting the funding of Montgomery County's share of WMATA's activities for FY98 is as follows:

Bus operating subsidy	\$ 21,975,228
Rail operating subsidy	19,404,077
Construction management subsidy	383,558
ADA Service	1,446,662
Metrobus and Metrorail capital replacement	4,866,360
Debt service on WMATA revenue bonds	<u>4,867,451</u>
Total	52,943,336
Less: WMATA Section 9 Grants	(836,237)
Current State aid	<u>(49,290,087)</u>
Net subsidy	<u>\$ 2,817,012</u>

At June 30, 1998, WMATA had outstanding debt of \$284,522,000, of which \$12,780,000 represented debt due within one year. All of this debt is payable from resources of WMATA.

Metropolitan Washington Council of Governments (COG)

COG is a multi-governmental organization in which local governments unite to solve area-wide problems. Montgomery County is a participant in COG along with other Washington metropolitan governments. The governing body of COG is a Board of Directors. Each participating governmental unit is allotted chairs on the Board in accordance with a specified population formula. Budgetary authority rests with the Board. Member dues finance approximately twenty percent of the total funding for COG, with state and Federal grants and private contributions providing the remainder. COG does not utilize debt financing. As a participating government in COG, Montgomery County paid FY98 membership dues amounting to \$570,760.

The FY98 COG Annual Financial Report was not available when this report was published.

Northeast Maryland Waste Disposal Authority (NEMWDA)

NEMWDA is a body politic and corporate and a public instrumentality of the State of Maryland. NEMWDA was established to assist the political subdivisions in the Northeast Maryland Region and the private sector in waste management and the development of waste disposal facilities adequate to accommodate the region's requirements for disposal of solid waste. NEMWDA has the following seven member jurisdictions from the State of Maryland: Montgomery County, Baltimore County, Anne Arundel County, Harford County, Howard County, Carroll County, and City of Baltimore. The Maryland Environmental Service is an ex-officio member.

NEMWDA issued bonds to fund the construction of the Montgomery County Resource Recovery Project (Project). At June 30, 1998, NEMWDA had outstanding bonds payable in the amount of \$350,840,000. All of these outstanding bonds are related to this Project and are limited obligations of NEMWDA, payable solely from the Project revenues and other amounts. Since the Project is owned and will be operated by NEMWDA, the bonds and related activities are included in the financial statements of NEMWDA.

This Project became operational in August of 1995. NEMWDA has entered into a service contract with Montgomery County under which the County pays a waste disposal fee calculated in accordance with the agreement. The waste disposal fee is comprised of an amount equal to debt service, facility fees, alternative disposal costs, NEMWDA administrative costs, operating costs, and NEMWDA component revenue.

Summary Financial Information

A summary of financial information of the six joint ventures at June 30 follows (\$000's):

	<u>MNCPPC (a)</u>	<u>WSSC (a)</u>	<u>WMATA (a)</u>	<u>WSTC (f)</u>	<u>COG (f)</u>	<u>NEMWDA (a)</u>
Total Assets	\$ 1,457,750	\$ 3,509,197	\$ 7,662,596	\$ 4,941	\$ 10,179	\$ 368,016
Total Liabilities	325,542	1,969,924	1,048,775	4,130	6,303	369,652
Total Equity (Deficit)	1,132,208	1,539,273	6,613,821	811	3,876	(1,636)
Total Revenue/Resources	306,939	420,067	355,050	186,629 (c)	20,428	63,354
Total Expenditures/Expenses	251,690	258,586	652,833	188,596 (d)	20,330	61,954
Other Financing Sources	56,708	35,103	312,800	-	249	-
Other Financing Uses	(35,988)	(108,163)	(15,017)	(1)	(1)	-
Capital Contributions	(229)	54,739	198,054	-	-	-
Other Changes in Fund Equity	20,161	-	248,374	130	-	-
Net Increase (Decrease) in						
Fund Balance/Retained Earnings	95,901	143,160	-	(1,838)	346	1,400
Total County Contributions						
During Year	-	-	52,943	52,985 (a,e)	571 (a)	47,299
Year-end Net Liability of County	235	193 (b)	-	- (a)	-	-

NOTE: All fiscal years end on June 30

a) FY98 data

b) Unremitted front foot benefit charges and prior period sanitary tax as of June 30, 1998, collected through the County's property tax billings

c) Revenues of the General and Mass Transit Funds and cash receipts of the Metro Capital and Operating Fund

d) Expenditures of the General and Mass Transit Funds and cash disbursements of the Metro Capital and Operating Fund

e) Pass through to WMATA except operating contribution of \$41,195

f) FY97 data

NOTE 15. DEFERRED COMPENSATION

The employees of Montgomery County, Maryland may participate in the Montgomery County Deferred Compensation Plan (the Plan). The purpose of the Plan is to extend to employees a deferred compensation plan pursuant to Section 457 of the Internal Revenue Code of 1954, as amended. This plan is accounted for and is included in the Combined Financial Statements as an agency fund. The County has contracts with Hartford Variable Annuity Life Insurance Company (HVA) and Fidelity Investments (FI) under which the Plan assets are owned by the County until paid or made available to participants. The participants are general creditors of the County under the terms of the Plan. Under the Plan, contributions are sent to HVA and FI for different types of investments as selected by the employees. A separate account, which reflects the monies deferred, the investment of the monies, and related investment earnings, is maintained for each participant. Withdrawals are made upon retirement, termination of employment, death, and/or in unforeseeable emergencies. The County has the same responsibility for due care that would be required of an ordinary prudent investor. The County believes that it is unlikely that the assets of the Plan will be used to satisfy the claims of general creditors in the future. Total contributions to the Plan during FY98 amounted to \$13,658,295 and total expenditures amounted to \$4,731,450. Current year investment earnings amounted to \$21,429,700.

Federal legislation requires that all assets and income of the Plan be placed in trust for the exclusive benefit of the employees and their beneficiaries by January 1, 1999. In October 1998, the County Council approved legislation to place the assets of the Plan in trust for the sole benefit of participants and their beneficiaries, and assigned trust responsibilities to the Board of Investment Trustees.

NOTE 16. OTHER EMPLOYEE BENEFITS

A) Vacation, Sick Leave, and Other Compensated Absences

Employees of Montgomery County, Maryland earn vacation, compensatory, and sick leave in varying amounts. In the event of termination, employees are reimbursed for accumulated vacation and compensatory leave. Employees are given credited service toward retirement benefits for accumulated sick leave at retirement. Earned but unused vacation and compensatory leave is accounted for in the proprietary funds as a current accrued liability. The liability for unused vacation and compensatory leave payable from governmental fund types is recorded in the Long-Term Obligations Account Group because it will be paid from future periods' resources. Current portions applicable to governmental funds have been determined to be immaterial. Sick leave earned but not taken by June 30, 1998, totaling 4,786,076 hours approximates \$126,680,023 based on the salary scale in effect at that date. Earned but unused sick leave is not recorded as a liability in these Combined Financial Statements because upon termination, sick leave is not paid. Sick leave is paid only in the event of employee illness - in which case the payments will be made from current resources at that time.

B) Postemployment Benefits

In addition to the pension benefits described in Note 17, the County, by authority of various Montgomery County Council resolutions, provides certain postemployment health care and life insurance benefits to all employees who retire under the Employees' Retirement System of Montgomery County, Maryland and have a minimum of five years membership in a health plan offered by the County. Under the plan, retirees and employees contribute 20 percent toward the cost of medical, dental, and life insurance, with the County contributing up to 80 percent of the insured amounts. Retirees may participate in the plan for a length of time equal to the time the retiree worked for the County. After that, the individual is required to pay the full cost of the insurance. All employees hired after January 1, 1987 are covered by a new plan. Under this plan, the retiree and County pay an equal share (50/50) of the insurance expense starting with five years of County service. This changes by two percent for each year of credited service up to a 70 percent County, 30 percent retiree contribution after the fifteenth year. Under this plan, employees have a lifetime insurance benefit. Currently, 3,042 retirees meet those eligibility requirements.

The plan is funded with the contributions from the Group Insurance Reserve Expendable Trust Fund, an appropriation in a non-departmental account of the General Fund, dividends, and pre-funded contributions from active employees. Expenses are recognized as retirees report claims, with an amount included to provide for incurred but not reported claims. The employer contributions were \$16,150,000 for FY98; retired employee contributions were \$4,181,773. The Employee Health Benefits Self Insurance Internal Service Fund accounts for this fiscal activity.

C) Other Employee Benefits

Montgomery County, Maryland provides comprehensive insurance programs to its employees. These benefits include but are not limited to medical and dental benefits, long-term disability, term life, and accidental death and dismemberment insurance. The cost of each insurance program is shared between the employer and the employees. During FY98, the County and its employees contributed \$33,035,880 and \$8,191,966, respectively. Employees of the Montgomery County Revenue Authority, Housing Opportunities Commission and Bethesda Urban Partnership, Inc. participate in the comprehensive insurance program of the County. Employer contributions totaled \$92,451, \$942,962, and \$9,513 for these component units, respectively, for FY98.

NOTE 17. PENSION PLAN OBLIGATIONS

PRIMARY GOVERNMENT

A) Defined Benefit Pension Plan

Plan Description - The Employees' Retirement System of Montgomery County (System) is a single-employer defined benefit pension plan sponsored by Montgomery County. Other agencies or political subdivisions have the right to elect participation. This Plan is closed to the employees hired on or after October 1, 1994 except public safety bargaining unit employees. Substantially all employees hired prior to October 1, 1994 of Montgomery County, the Montgomery County Revenue Authority, the Housing Opportunities Commission of Montgomery County, the independent fire/rescue corporations, the Town of Chevy Chase, The Strathmore Hall Foundation, Inc., the Washington Suburban Transit Commission, certain employees of the State Department of Assessments and Taxation, and the District Court of Maryland are provided retirement benefits under the System. The System, established under Chapter 33 of Montgomery County Code, 1994, as amended, is a contributory plan with employees contributing a percentage of their base annual salary, depending on their group classification which determines retirement eligibility. The System does not separately issue a stand-alone financial report.

The Board of Investment Trustees (Board) has the exclusive authority to manage the assets of the System. The Board consists of nine trustees and functions as part of Montgomery County. Effective in FY95, the County established a Defined Contribution Plan under which employees covered under the Defined Benefit Plan may make an irrevocable decision to move into the Defined Contribution Plan. Members who transfer into the new Plan will have their credited service frozen in the Defined Benefit Plan and their accumulated balances will remain there.

All covered full-time employees of the County and participating agencies must become members of the System as a condition of employment. All covered career part-time employees of the County and participating agencies may become a member on an individual basis.

Number of retirees and beneficiaries currently receiving benefits	3,585
Number of terminated employees entitled to benefits but not yet receiving them	218
Number of current active employees	6,424

Effective July 1, 1978, the System was divided into two groups: the Integrated Retirement Plan which provides full retirement benefits until the member reaches age 65, with supplemental benefits to Social Security thereafter, and the Optional Retirement Plan which provides full retirement benefits for life. Employees hired after July 1, 1978 may only participate in the Integrated Retirement Plan; however, employees hired prior to July 1, 1978 participate in the Optional Retirement Plan, if not electing to convert to the Integrated Retirement Plan. Under the provisions of the Integrated Retirement Plan the annual contribution of all members is 3 percent to 3.75 percent of regular annual earnings up to the maximum Social Security base, and 6 percent to 7.5 percent of regular annual earnings in excess thereof. Upon election to participate in the Integrated Retirement Plan, Optional Retirement Plan members are refunded their annual contribution which exceeded the amount that would have been paid had the contribution under the Integrated Retirement Plan been in effect from date of their enrollment in the System to date of election, plus credited interest thereon. For those members who elect to remain in the System under the Optional Retirement Plan, the contribution rate remains at 6 percent to 7.5 percent of their base annual salary.

Employees' contributions are credited to each member's reserve account, which earns interest at the rate of 4 percent per annum based on the balance accumulated in the member's account at the beginning of the year. Also, members may purchase prior service credits under certain conditions. Normal retirement benefits are 2 percent of the final 12 months' regular basic earnings for members enrolled prior to July 1, 1978, or 2 percent of the final 36 month average for members enrolled after June 30, 1978 multiplied by years of credited service (maximum 36 years) adjusted for cost of living. Benefit provisions are established under section 33-42 of the Montgomery County Code of 1994, as amended. For almost all members, normal retirement is age 60 with five years of service or age 55 with thirty years of service in Groups A and H (nonpublic safety employees), age 55 with fifteen years of service or age 46 with twenty five years of service in Groups E and F (police and corrections public safety employees), or age 55 with fifteen years of service or age 46 with twenty five years of service or twenty five years of actual service regardless of age in Group G (firefighters public safety employees).

Members who retire early receive normal retirement benefits reduced by a minimum of 2 percent to a maximum of 60 percent depending on the number of years early retirement precedes normal retirement. Disability benefits are contingent upon service-connected or nonservice-connected occurrences and total or partial permanent disablement. Death benefits are contingent upon service-connected or nonservice-connected occurrences. Effective July 1, 1989, when a member terminates employment before his retirement date and after completion of five years of credited service, he may elect to leave his member contributions in the System and receive a pension upon reaching his normal retirement date, based on the amount of his normal retirement pension that has accrued to the date of termination. Vested benefits and eligibility requirements are described under section 33-45 of the Montgomery County Code of 1994, as amended. A member who terminates employment prior to five years of credited service is refunded his accumulated contributions with interest.

Summary of Significant Accounting Policies - The accrual basis of accounting is used for the System. Under this method, revenues including contributions are recorded when earned, expenses including benefits and refunds paid are recorded at the time liabilities are incurred, and allocation of depreciation is recorded for the fiscal period. Investments are stated at fair market value or cost plus accrued interest. The group annuity contract is stated at book value. The System invests in derivatives in accordance with the policy of the Board of Investment Trustees. During FY98 the System invested directly in various derivatives including asset-backed securities, collateralized mortgage obligations, bond index future contracts, forward currency contracts, and floating rate securities. The System entered into these investments either to increase earnings or to hedge against potential losses, but these investments were not used to leverage the portfolio. These investments generally contain market risk resulting from fluctuations in interest and currency rates. The credit risk of these investments is associated with the creditworthiness of the related parties to the contracts.

Concentrations - At June 30, 1998, \$212,964,267 (12.17%) of the Pension Trust Fund's net assets available for benefits are invested in the State Street Bank and Trust Company Flagship S & P 500 Index Fund, which invests in the 500 stocks of the S & P Index.

Funding Policy, Contributions, and Reserves - Required employee contribution rates varying from 3 percent to 7.5 percent of regular earnings are fixed and specified under section 33-39 (a) of the Montgomery County Code of 1994, as amended. The County and each participating agency are required to contribute the remaining amounts necessary to fund the System, using the actuarial basis as specified in section 33-40 of the Montgomery County Code of 1994, as amended. Under the current procedures, an actuarial valuation is performed to determine the employer contribution rate for the System. The contribution rate developed is a percentage of active member payroll. The dollar amount of each year's employer contribution is determined by applying the contribution rate to the actual payroll for each year.

Funding of the System during the period is the sum of the normal costs and amortization of the unfunded accrued liability over a forty-year period.

Annual Pension Cost and Net Pension Obligation – The annual pension cost and the net pension obligation of the Montgomery County, Maryland and the participating agencies for FY98 were as follows:

	<u>Amount</u>
Annual required employer contributions (ARC)	\$ 51,097,622
Contributions made (100% of ARC)	<u>51,097,622</u>
Net Pension Obligation	<u>\$ -</u>

The annual required contributions for FY98 were based on an actuarial valuation as of June 30, 1996, the latest valuation available on the date the County Council was required to approve the appropriation resolution.

The actuarial valuation for the fiscal year ended June 30, 1998 is based upon the projected unit credit actuarial cost method and includes these significant assumptions, which have not changed from the prior year:

- Investment return: 8 percent compounded annually
- Salary increase: 4.5 percent compounded annually plus merit and promotional increases based on age
- Social Security wage base: 5 percent annual increases
- Consumer Price Index: approximately 4.5 percent annual increases
- Retirement age: ages varying from 41 years to 65 and over
- Turnover: rates varying from no turnover to 23 percent depending on gender
- Mortality: the 1983 Group Annuity Mortality Table with two-year setback in age for both males and females
- Disability: statistics published in the Social Security Administration's Actuarial Study No. 75 adjusted for County experience
- Actuarial Value of Assets: incorporates a five year phase-in of market gains and losses

Three-Year Trend Information

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
1996	\$ 38,862,333	100%	\$ -
1997	49,762,655	100	-
1998	51,097,622	100	-

Other - On August 1, 1986, Montgomery County entered into an agreement with the Aetna Life Insurance Company (Aetna). Under the terms of this agreement, Aetna agreed to accept future responsibility for making the monthly payments being paid to members retired prior to January 1, 1986, and other amounts previously guaranteed by Aetna under the group annuity contract, including cost of living increases effective prior to January 1, 1986, with respect to such annuity payments in exchange for a lump sum payment of \$154,168,890. Aetna agreed that by virtue of its acceptance of this amount, Montgomery County has no further obligation whatsoever with respect to supporting the payments described above. As

a result, pensions paid by Aetna under this agreement have not been recognized as expenses. The group annuity contract originally valued at \$154,168,890 is being amortized over a period of 45 years using a ratio of yearly projected annuities to total projected annuities and the value of the group annuity contract. The unamortized value at June 30, 1998 is \$77,443,534.

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS (Unaudited)

Fiscal Year *	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll	Annual Required Employer Contributions	Percentage Contributed
1993	\$ 987,309,105	\$ 1,197,654,794	\$ 210,345,689	82.4 %	\$ 254,107,067	82.8 %	\$ 41,283,479	100 %
1994	1,001,693,615	1,331,224,697	329,531,082	75.2	258,959,079	127.3	41,428,002	100
1995	1,107,039,322	1,452,486,671	345,447,349	76.2	265,118,933	130.3	43,619,963	100
1996	1,252,913,221	1,530,349,100	277,435,879	81.9	267,547,924	103.7	38,862,333	100
1997	1,317,475,134 (1)	1,582,565,673	265,090,539	83.2	272,262,031	97.4	49,762,655	100
1998	1,496,651,390	1,660,034,038	163,382,648	90.2	278,364,575	58.7	51,097,622	100

(1) Restated

* Actuarial valuation is performed as of June 30 of each fiscal year.

Notes to Required Supplementary Information (Unaudited) - The actuarial method and significant assumptions used for the most recent year reported in the required schedules are described earlier in this Note.

B) Defined Contribution Plan

Plan Description - Employees' Retirement Savings Plan (Plan) is a single-employer defined contribution plan established by Montgomery County under Chapter 33 of the Montgomery County Code. Other agencies or political subdivisions have the right to elect participation. All non-public safety and certain public safety (not in bargaining unit) employees hired on or after October 1, 1994 are covered under this Plan. In addition to Montgomery County, other participant agencies include the Montgomery County Revenue Authority, the Housing Opportunities Commission of Montgomery County, the independent fire/rescue corporations, the Town of Chevy Chase, the Strathmore Hall Foundation, Inc. and the Washington Suburban Transit Commission. Employees covered under the defined benefit plan may make an irrevocable decision to move into this Plan. At the end of FY98, there were 1,043 employees who were covered under this Plan.

Under this Plan, employees contribute 3 percent of regular earnings up to Social Security wage rate and 6 percent above Social Security wage rate. The employer contributes 6 percent and 10 percent of regular earnings for non-public safety and public safety employees respectively. The employer also contributes additional .50 percent of regular earnings to defray expenses of the Plan. Employee contributions are always vested under this Plan and employer contributions are vested after 3 years of service or upon death, disability, or retirement age of the employee. The Board of Investment Trustees monitors the Plan and offers investment options to the participating employees. Required employer and employee contributions made to this Plan for FY98 were \$1,850,834 and \$900,020, respectively.

Summary of Significant Accounting Policies - The accrual basis of accounting is used for this Plan. Under this method revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Investments are stated at fair market value or cost plus accrued interest and are valued primarily on the basis of market quotations. If the quotations are not readily available then investments may be valued by another method which reflects fair value.

C) Other

In addition, Montgomery County contributed \$548,186 during FY98 for pension costs for a few employees/retirees who elected to remain in the State plan. This amount includes the current service costs plus an amount sufficient to amortize the prior service cost over a forty year period ending June 30, 2020.

COMPONENT UNITS

The Montgomery County Revenue Authority and the Housing Opportunities Commission participate in the Employees' Retirement System of Montgomery County. The employer and employee contributions of these component units are reflected in the disclosure noted above. Montgomery County Public Schools and Montgomery Community College participate in various Maryland State Teachers and Employees Pension and Retirement Plans in addition to maintaining their own plans. Detailed disclosures of these plans are available in the audited financial statements of these component units. The Bethesda Urban Partnership, Inc. maintains a simplified employee pension plan.

Summary Data - Combined Actuarial Accrued Liability and Actuarial Value of Assets

	Montgomery County	MCPS Plan *	MCC State Plans *	MCC Aetna **	Total
Actuarial Accrued Liability	\$ 1,660,034,038	\$ 537,742,000	\$ 25,383,208,660	\$ 9,094,300	\$ 27,590,078,998
Actuarial Value of Assets	<u>(1,496,651,390)</u>	<u>(482,315,000)</u>	<u>(21,920,695,723)</u>	<u>(12,461,435)</u>	<u>(23,912,123,548)</u>
Unfunded (Net Assets in Excess of)					
Actuarial Accrued Liability	<u>\$ 163,382,648</u>	<u>\$ 55,427,000</u>	<u>\$ 3,462,512,937</u>	<u>\$ (3,367,135)</u>	<u>\$ 3,677,955,450</u>

* As of July 1, 1997

** As of July 1, 1998

Note 18. YEAR 2000

On March 29, 1999, the Governmental Accounting Standards Board (GASB) issued Technical Bulletin (TB) 99-1, Disclosures about Year 2000 Issues – an amendment of Technical Bulletin 98-1. The amendment, among other things, provides that required year 2000 disclosures may be reported as required supplementary information. Retroactive application of TB 99-1 is permitted. The County has elected to apply TB 99-1 retroactively for its FY98 general purpose financial statements, and to present the year 2000 disclosures as required supplementary information below.

YEAR 2000 READINESS DISCLOSURE (Required Supplementary Information – Unaudited)

A) Year 2000 Mission

The County's Year 2000 mission is to manage its Year 2000 Program (the Program) in such a way as to ensure that no mission-critical services failure will occur as a result of the Year 2000 date problem.

B) Program Structure and Organization

The County formally initiated the Program in November 1996 to ensure that all mission-critical systems with a Year 2000 date problem were identified and corrected prior to January 1, 2000. The Program is led by the Interagency Technology Policy Coordination Committee (ITPCC). The ITPCC is made up of the County's Chief Administrative Officer and the heads of the following governmental agencies:

Component Units:

- Montgomery County Public Schools
- Montgomery College
- Housing Opportunities Commission
- Montgomery County Revenue Authority

Joint Venture:

- Maryland-National Capital Park and Planning Commission

The Washington Suburban Sanitary Commission (WSSC), a bi-county agency, is also part of the ITPCC. However, it is excluded from the detailed disclosures below because its Year 2000 Program is only loosely coupled with the County's Program.

The County has established the Year 2000 Project Office and the ITPCC has established a Year 2000 Subcommittee to coordinate efforts on an interagency basis. The County has also established an Executive Branch Year 2000 Policy Group (the Group), which is comprised of the County Chief Administrative Officer (CAO) and six key department heads. The Group is responsible for reviewing progress and resolving issues on a regular basis. Each agency has also organized its own Project Committee and Year 2000 Project Coordinator.

The primary objectives of the Program are to:

- Ensure continued delivery of all mission-critical services by making supportive computer systems compliant and/or establishing and testing contingency plans;
- Provide streamlined administrative processes for prompt and timely decision making commensurate with the priority and triage requirements of the Program;
- Make each agency and department accountable for the success of its Year 2000 program;
- Assure inter-operation testing of systems and business partners and contingency plan/business continuity plan preparation and testing, where possible;
- Carry out a Year 2000 Community Outreach effort in order to reach other governments, residents, businesses, employees and special need groups via County initiated events;
- Facilitate efforts of municipal governments, regional entities, and the Federal government in order to minimize impact to the County; and
- Share information and serve as a model for other organizations.

C) Program Approach – Systems Compliance

The Program systems compliance process involves four principal stages: assessment, remediation, testing, and implementation. Year 2000 best practices and metrics (i.e., forms for system profiles, risk ratings, project timelines, and funding estimates) are used Program-wide to facilitate the compliance process. Year 2000 issues addressed during the process include internal, external, and mechanical issues. Internal issues may arise from a government's own operations and may materially affect its creditworthiness and ability to make timely payment of its obligations. External issues may arise from parties, other than the government, that provide payments/revenues that support the debt service on a government's municipal securities. Mechanical issues may arise if Year 2000 problems disrupt the actual mechanical process used to send payments to bondholders.

During the assessment stage, systems are identified and classified into the following categories: enterprise, departmental, infrastructure and facilities. Total systems being addressed across all agencies as of May 1999 totaled 313.

The Year 2000 remediation solution for each system was initially identified as replacement, repair, validation of existing compliance, or retirement. Each project in the Program is classified in one of four risk categories (from highest risk to lowest): mission-imperative, mission-critical, mission-essential, and mission-enabling. Currently, projects are being remediated in all four categories. The progress of each project is monitored on an ongoing basis, generally monthly. A progress report is provided regularly to the Executive Branch Year 2000 Policy Group, the ITPCC, and the County Council.

The number of projects, and examples of systems, in each category as of May 1999, are as follows:

<u>Risk Category</u>	<u>Number</u>	<u>Examples of Systems</u>
Mission-imperative	77	E-911 CAD emergency dispatch, advanced traffic management system, public schools financial information system, and tax assessment and receivable systems.
Mission-critical	73	Financial system, personnel/payroll system, public schools student information system, building permits, PA/bell/fire alarms.
Mission-essential	134	Security systems, inventory control, fuel tracking.
Mission-enabling	29	Road inventory, elevators, air quality.

The County intends to test all Year 2000 fixes first as stand alone and subsequently with other inter-operating systems. Testing is estimated to constitute more than 50% of the total effort, and is required to validate and certify the compliance status of each system before it is implemented.

The stages of completion of systems, by risk category, are as follows as of May 1999:

Risk Category	Stages					Total
	Awareness	Assessment	Remediation	Validation/Testing	Completion	
Imperative	0	7	10	17	43	77
Critical	0	5	13	19	36	73
Essential	0	4	14	18	98	134
Enabling	0	0	0	4	25	29
Total #	0	16	37	58	202	313
Total %	0.0%	5.1%	11.8%	18.5%	64.6%	100%

Broad definitions of each stage in accordance with GASB TB 98-1 are:

Awareness – Establishing a budget and project plan.

Assessment – Inventorying/reviewing systems for compliance and identifying critical systems.

Remediation – Deciding how to make systems compliant, and making required program changes.

Validation/Testing – Developing and running test scripts and reviewing results until complete.

The County has included the following stage to present a more complete picture of its Year 2000 efforts: Completion – Implementation of compliant systems and signing of compliance certificate. This stage also includes 7 Project Office operational support programs, such as business continuity and community outreach, and 52 projects that have met their original scope, but have been re-scoped and have developed into new projects. New projects are then monitored and tracked separately.

The County, for internal tracking purposes, generally groups the awareness category under the assessment stage. Based on the definitions above, the County does not have any systems considered to be in the awareness stage as of May 1999.

D) Business Continuity Assurance

In addition to the County's system compliance plans, the Program includes the compliance assessment of its business partners (e.g., contractors, vendors, customers, and other external stakeholders). The failure of certain business partners and suppliers/customers to function could impact the County's ability to deliver critical public services. The business continuity assurance program provides a template for agency use in identifying the most critical business processes and associated business partners. It also initiates contact with business partners, continually assesses the business risk, appraises management of the findings, and plans risk reduction strategies prudently.

As of May 1999, the most up-to-date information available, 2,595 suppliers have been contacted, of which 2,202 are still being tracked as "active" and are still delivering goods and services to County departments.

We have received 1,614 responses. The County sent second confirmation requests in December 1998 to any suppliers that had not responded by that time. Follow-up with non-respondents is continuing.

E) Contingency Planning

A critical part of the Program is the development of contingency plans to assure continued operation of critical services in the event of automated systems failure or unforeseen supply chain interruptions. The Program has provided departments and agencies with contingency plan preparation guidelines and contingency plan testing guidelines, which include awareness, definitions, responsibilities, metrics, methodologies, and templates. Contingency plans from departments describe the steps to be taken, including the activation of manual or outsourced processes, to ensure the continuity of mission-critical business processes in the event of a Year 2000-induced system failure. Contingency plans were initially submitted to the Year 2000 Project Office in November 1998, and are to be finalized by June 1999.

Since there are no guarantees that current remediation efforts will be totally successful, consequence management scenarios must be developed and rehearsed. Year 2000 consequence management is defined by the County as the ability to receive, analyze, and disseminate Year 2000 information in real-time, and to augment the capability of the County's Emergency Management Group to respond to Year 2000-induced failures, in order to assure delivery of essential goods and services. To that end, an emergency management exercise was conducted on December 21, 1998 to assess Year 2000 disaster preparedness. The objective of the exercise was to involve multiple perils of increasing complexity and duration, and to use and test the existing emergency management structure of the County.

Results of the County's Year 2000 exercise were widely published as the first event of its kind. The exercise helped launch the County's Community Outreach program and the County is serving as a consultant to the State's Year 2000 contractor and the contractor for the Metropolitan Washington Council of Governments (COG) to help design their Year 2000 exercises scheduled for July 1999 and September 1999, respectively. The County has undertaken special efforts to include Year 2000 consequence management in its Emergency Operations Plan.

Contingency and business continuity plan testing and maintenance for departmental contingency plans will continue until year-end.

F) Significant Resource Commitments

Total estimated cumulative funding information for Year 2000 solutions, including contract amounts for hardware, software, and consulting services specifically to make systems compliant, and including dedicated personnel costs in the County's Year 2000 Project Office, through June 30, 1998, is as follows:

<u>Organization(s)</u>	<u>Total Amounts Appropriated</u>	<u>Expended as of June 30, 1998</u>	<u>Encumbered at June 30, 1998</u>
County	\$ 8,102,000	\$ 3,087,000	\$ 1,737,000
Other entities	<u>16,362,000</u>	<u>8,064,000</u>	<u>3,610,000</u>
Total	<u>\$ 24,464,000</u>	<u>\$ 11,151,000</u>	<u>\$ 5,347,000</u>

For FY99, the Council approved \$10,843,360 (\$2,439,310 for the County and \$8,404,050 for other agencies) in additional Year 2000-related funding. In December 1998, supplemental appropriation requests amounting to \$3,870,970 (\$2,127,230 for the County and \$1,743,740 for MCPS) were approved by the County Council. Additional supplemental appropriation requests amounting to \$1,572,450 (\$1,382,400 for the County, \$104,050 for HOC, and \$86,000 for MCPS) were also approved by the Council. In May 1999, the Council's Approved FY00 Operating Budget includes \$7,481,868 for Year 2000 projects for all agencies (\$2,270,290 for the County, \$2,120,875 for MCC, and \$3,090,703 for MCPS).

G) Intergovernmental Community Outreach

The County is working in a leadership role with the Metropolitan Washington Council of Governments (COG) to heighten awareness, foster cooperation, and provide guidance to other regional governments. The County's CAO and Chief Information Officer chair their respective committees of the COG. County Emergency Management Group (EMG) officials are intimately involved with the region's and the State's EMGs.

The County is an active participant in the State of Maryland's Year 2000 local governments' working group, and is taking advantage of a State-negotiated multiple license agreement with a major software vendor.

At the Federal level, County officials have testified before the Senate Special Committee on Year 2000 Technology Problem and the House Committee on Transport and Infrastructure. The testimony shared the issues faced by local governments, summarized the County's approach to the issue, and suggested certain key initiatives the Federal government could undertake to significantly assist local governments in their efforts.

At the local level, the County Executive approved a formal Year 2000 Community Outreach Program in January 1999. The program is supported by a Community Outreach Advisory Council and includes a series of town meetings led by the Year 2000 Project Office. The objectives of the program are to provide Year 2000 information to citizens and businesses and to obtain community feedback. Participants include the County agencies (e.g., WSSC, MCPS), the State (Year 2000 Program Office, Maryland Emergency Management Agency), and the utilities (including PEPCO, Washington Gas). Two very successful town meetings have already been held. A Guide to Emergency Preparedness including Year 2000 preparedness was published in a local newspaper. A mailing to all County residents is also planned.

H) Summary

Although minor problems will undoubtedly remain, the County expects to resolve all of its critical Year 2000 problems before January 1, 2000. The County does not expect Year 2000 problems to have a material adverse effect on its financial health or its ability to meet its financial obligations in a timely manner. Nevertheless, the County has no control over the Year 2000 remediation efforts of external third parties. It is possible, therefore, that even if the County were fully Year 2000 compliant, and even if the County were to pay all of its obligations on time, the noncompliance of external third parties involved in the transfer of principal and interest payments could adversely affect the timeliness or amount of payments to bondholders.

PART IV

INDEX

INDEX

<u>Fund Titles/Account Groups</u>	<u>Page</u>			
	<u>Balance Sheet</u>	<u>Operating Statement</u>	<u>Cash Flows</u>	<u>Budgetary Schedule</u>
Montgomery County, Maryland - Primary Government:				
Agricultural Transfer Tax Expendable Trust	152	154	-	-
Auction Proceeds Agency	157	-	-	-
Bethesda Parking Enterprise	136	138	140	142
Bethesda Urban District Special Revenue	102	103	-	109
Bradley Noise Abatement Special Revenue	104	105	-	115
Cabin John Noise Abatement Special Revenue	104	105	-	115
Cable TV Expendable Trust	152	154	-	-
Cable TV Special Revenue	98	100	-	121
Capital Projects	132	133	-	134
Central Duplicating Internal Service	146	147	148	-
Child Day Care Facility Loan Special Revenue	98	100	-	123
Common Ownership Communities Special Revenue	106	107	-	118
Community Use of Educational Facilities Enterprise	136	138	140	142
Court Appointed Guardians Expendable Trust	152	154	-	-
Debt Service	128	129	-	130
Deferred Compensation Agency	156	-	-	-
Detention Center Canteen Profits Expendable Trust	152	154	-	-
Drug Enforcement Forfeitures Special Revenue	98	100	-	123
Economic Development Special Revenue	102	103	-	112
Employee Health Benefits Self Insurance Internal Service	146	147	148	-
Employees' Retirement System Pension Trust	159, 27	28	-	-
Employees' Retirement Savings Plan Pension Trust	159, 27	28	-	-
Fire Tax District Special Revenue	98	100	-	122
Ford Foundation Health Activities Expendable Trust	152	154	-	-
Forest Conservation Special Revenue	98	100	-	-
General	88	89	-	90
General Fixed Assets Account Group	164, 165	-	-	-
General Long-Term Obligations Account Group	166	-	-	-
Grants Special Revenue	98	100	-	124
Group Insurance Reserves Expendable Trust	152	154	-	-
Housing Initiative Special Revenue	106	107	-	119
HOC Treasury Bonds Nonexpendable Trust	160	161	162	-
Inter-Agency Facility Scheduling Agency	157	-	-	-
Investment Trust	151	28	-	-

<u>Fund Titles/Account Groups</u>	<u>Page</u>			
	<u>Balance Sheet</u>	<u>Operating Statement</u>	<u>Cash Flows</u>	<u>Budgetary Schedule</u>
Landlord Tenant Affairs Special Revenue	106	107	-	116
Liability and Property Coverage Self Insurance Internal Service	146	147	148	149
Liquor Enterprise	136	138	140	143
Mass Transit Facilities Special Revenue	104	105	-	114
Miscellaneous Agency	158	-	-	-
M-NCPPC Risk Management Agency	156	-	-	-
Montgomery Community College Capital Agency	156	-	-	-
Montgomery County Public Schools Capital Agency	156	-	-	-
Montgomery Hills Parking Enterprise	136	138	140	142
Motor Pool Internal Service	146	147	148	-
New Home Warranty Security Special Revenue	106	107	-	120
Permitting Services Enterprise	136	138	140	142
Private Contributions Expendable Trust	152	154	-	-
Property Tax Agency	157	-	-	-
Recreation Activities Agency	157	-	-	-
Recreation Special Revenue	98	100	-	108
Rehabilitation Loan Special Revenue	106	107	-	117
Revenue Stabilization Special Revenue	102	103	-	112
Silver Spring Parking Enterprise	136	138	140	142
Silver Spring Urban District Special Revenue	102	103	-	110
Solid Waste Collection Enterprise	136	138	140	143
Solid Waste Disposal Enterprise	136	138	140	143
Storm Drainage Maintenance Special Revenue	104	105	-	113
Strathmore Hall Nonexpendable Trust	160	161	162	-
Tri-centennial Expendable Trust	152	154	-	-
Wheaton Parking Enterprise	136	138	140	142
Wheaton Urban District Special Revenue	102	103	-	111
Component Units:				
Bethesda Urban Partnership, Inc.	8	17	22	-
Housing Opportunities Commission of Montgomery County	8	17	22	-
Montgomery Community College	8	24, 26	-	-
Montgomery County Public Schools	8	12, 17	22	-
Montgomery County Revenue Authority	8	17	22	-



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